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Annual Meetings

IMF Given Role in Fostering Freer Capital Flows; Quota Increase, SDR Allocation Agreed

The Fifty-Second Annual Meetings of the IMF and the World Bank concluded with a consensus that global opening and integration offer the only path to worldwide prosperity and that strong IMF surveillance over the policies of its 181 members remains essential. The meetings achieved important and concrete results for the IMF, notably an endorsement by ministers and governors of the IMF's role in promoting the liberalization of capital flows, agreement on a 45 percent increase in IMF quotas, and agreement on an "equity" SDR allocation that doubles SDRs allocated to date.

At the Annual Meetings, held in Hong Kong, China, on September 23–25, finance ministers and central bank governors discussed at length the implications of the integration of markets on world economic performance and on the IMF. Ministers commended the IMF for its quick response to the recent Thai financial crisis. They also hailed the progress in implementing the joint IMF–World Bank Initiative to assist heavily indebted poor countries (HIPC Initiative), while urging potential bilateral creditors to share equitably the cost of the Initiative. And they cited progress toward European economic and monetary union (EMU), which they believed would contribute to international monetary stability.

Ministers and governors at the Annual Meetings took satisfaction in the favorable medium-term global outlook. They noted the "essential" importance of adhering to the cooperative strategy to strengthen the global expansion—as embodied in the Partnership for Sustainable Global Growth. This strategy, adopted in September 1996, stresses the complementarity of macroeconomic and structural reform, and the need for high-quality fiscal adjustment, good governance, and sound banking systems. Ministers also welcomed the IMF's guidelines clarifying its involvement in issues of good governance (see *IMF Survey*, August 5, page 233) and the ongoing efforts to help countries strengthen their financial systems.

The Annual Meetings' plenary session opened on September 23 with speeches by Chinese Premier Li Peng; Mohammed K. Khirbash, Minister of State for Finance and Industry of the United Arab Emirates and Chairman of the Annual Meetings; World Bank President James D. Wolfensohn; and IMF Managing Director Michel Camdessus. The plenary was preceded by meetings of the Interim Committee of the IMF's Board of Governors—the IMF's principal advisory body—the Development Committee (the Joint Bank and Fund Committee on the Transfer of Real Resources to Developing Countries), and meetings of the Group of Ten and Group of Seven advanced countries and the Group of Twenty-Four (G-24) developing countries.

World Bank President Wolfensohn, Annual Meetings Chairman Khirbash, and IMF Managing Director Camdessus at the close of the Hong Kong meetings.

Global Prospects Bright But....

At its September 21 meeting, the Interim Committee cited the favorable prospects *(Please turn to following page)*

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for continued expansion in global output and trade, but identified risks confronting the advanced, developing, emerging market, and transition countries. These risks have the potential to affect the world economy and must be addressed "decisively." In particular, the Interim Committee noted that:

• Although the *advanced economies* are likely to see growth with low inflation continue, sustained fiscal consolidation remains a challenge for many. Furthermore, exchange rates of major currencies should reflect fundamentals to avoid large external imbalances. Given its high capacity utilization, the United States needs to guard against the re-emergence of inflation, and continental Europe's monetary policy should remain consistent with sustained growth of domestic demand, with several European countries having to tackle high unemployment through more efficient and adaptable labor and product markets and reform of tax systems and social benefits, and other entitlements. Japan's challenge is to spur domestic-led demand growth while proceeding with structural reform and fiscal consolidation.

• Growth prospects in *developing countries* have strengthened, but further progress is needed to alleviate poverty. Specifically, these countries need to maintain macroeconomic discipline and step up structural reform—to improve public administration and financial sector management, develop human capital, promote basic infrastructure, and foster an environment conducive to private investment.

• In some *emerging market economies*, large external imbalances and fragile banking systems have undermined investor confidence and aggravated risks associated with volatile capital movements.

• Growth has resumed in the *transition economies* following, in most cases, macroeconomic stabilization and structural reform. But stronger growth depends on faster legal, institutional, and other reforms—to encourage private activity and investment—and most of these countries need to lower inflation.

Underscoring the requirements imposed on governments in an increasingly integrated world economy, IMF Managing Director Michel Camdessus, at a September 18 press conference, stressed governments' responsibility in a world in which all have to compete for excellence, with no scope for macroeconomic vulnerability. Recent Asian market developments, said Camdessus in his opening remarks at the plenary, taught "that countries cannot compete for the blessings of global capital markets and refuse their disciplines."

In welcoming the progress toward EMU, the Interim Committee noted that the economic convergence achieved in Europe and the commitment to launch EMU on schedule would help secure a smooth transition to the euro on January 1, 1999. The best route to a solid and stable EMU was for its participants to demonstrate a commitment to the fiscal requirements of the Stability and Growth Pact and their resolve to attack the root causes of Europe's high unemployment.

The recent disturbances in Asian financial markets have underscored the importance for all countries to ensure consistent macroeconomic policies and strong financial systems and to avoid excessive external deficits and excessive reliance on short-term foreign borrowing. While the impact of financial market turmoil on some Asian countries is likely to dampen growth in the near term, the Interim Committee said that these countries' fundamentals remain solid and their longer-term outlook is favorable, provided the required adjustment policies are sustained. The Asian experience has illustrated that rising capital flows may require adaptation of exchange arrangements to changing circumstances. More flexibility, explained Managing Director Camdessus at the Interim Committee press conference with Chairman Maystadt, was essential to protect countries against "powerful waves of speculation" and to convey the proper signals earlier to national authorities—who might then adopt the necessary corrective measures sooner—and to investors. Nonetheless, most important was a sound macroeconomic and structural policy consistent with the exchange regime.

In his closing speech, on September 25, Managing Director Camdessus noted that many ministers had cautioned against letting market turbulence interfere with the quest for closer financial integration. The best way to deal with volatile capital flows, Camdessus said, was not to restrict capital markets but to make them work better, notably through countries' greater disclosure and transparency. And the best way to combat speculation, Camdessus said in his closing press conference on September 25, was not through administrative controls but through the excellence of macroeconomic policies—with mutual regional surveillance complementing IMF surveillance in support of such policies. Replying to a question on the possibility of an "Asian fund," Camdessus said it was better to have just one source of conditionality based on "solid experience," which is that of the IMF. Whatever schemes being considered, he said, should work on the base of IMF conditionality and, indeed, be subordinated to it.

IMF Asked to Further Adapt Surveillance

Ministers commended the IMF for its prompt and effective response to events in Asia, welcomed the financial support provided by the region, and invited the Executive Board to consider lessons to be drawn for the IMF's work in helping prevent crises or cope with market turbulence. Recognizing that openness and accountability in policymaking were vital for policy credibility, the Interim Committee suggested the IMF look into developing a "code of good practices" in this area. It stressed that timely and accurate information is also needed to improve the functioning of markets, and it supported the IMF's Special Data Dissemination Standard (SDDS). Indeed, the Committee called for strengthening the SDDS, both through more country subscribers and greater precision in data published. Interim Committee members also hailed the contribution to transparency of the new Press Information Notices, which are released voluntarily following the conclusion of IMF consultations with members.

The Committee welcomed the IMF's guidelines on governance, which explain that the IMF's role is limited to economic aspects of governance, mainly by helping countries improve the management of public resources, through, for example, greater transparency and accountability, and helping countries promote a stable economic and regulatory environment. And the Committee endorsed the ongoing efforts to enhance the soundness of financial systems—notably, the establishment of the Core Principles of Effective Banking Supervision developed by the Basle Committee on Banking Supervision in conjunction with the supervisory authorities in a number of emerging market economies. Building on this, Managing Director Camdessus explained in his opening remarks at the plenary, the IMF has developed a framework for financial sector stability, which will help it disseminate a set of internationally recognized "best practices" in the financial area.

Commenting on IMF surveillance in their communiqué, G-24 developing country ministers urged the IMF to ensure effective surveillance over the macroeconomic policies of major currency countries, given the harmful effects on developing countries of large fluctuations among the major currencies. The emergence of a tripolar international monetary system (dominated by the dollar, the yen, and the euro), they said, required that the world community address the issue of reforming the monetary system.

Freer Capital, with an Orderly Transition

An open and liberal system of capital movements—underpinned by sound policies and strong financial systems—enhances global welfare and prosperity, agreed Interim Committee members. To expedite work on amending the IMF's Articles of Agreement to give the IMF jurisdiction over capital account movements, the Interim Committee issued a statement on liberalization of capital flows (see page 302). The "Hong Kong Statement" characterizes liberalization as an essential element of an efficient international monetary system and states that the IMF's central role in the monetary system and its near universal membership make it uniquely qualified to assist in the liberalization process—by encouraging countries to adopt policies that "facilitate properly sequenced liberalization and reduce the likelihood of financial and balance of payments crises." Interim Committee Chairman Maystadt termed the Hong Kong Statement "a milestone in the history of the Fund" and Managing Director Camdessus added that it was striking that the statement was unanimously adopted after recent events in Asian markets.

The Hong Kong Statement emphasizes that capital account liberalization should proceed in an orderly way, with adequate transition periods, to avoid premature actions that lead to reversals. Commenting on the IMF's role in this context, Managing Director Camdessus, at the joint press conference, said that the goal was "an orderly liberalization...in a context of stronger macroeconomic balances...and stronger financial institutions that are properly capitalized and able to resist temporary tensions resulting from volatility in... capital markets that we will never completely eliminate." For their part, G-24 ministers stressed that capital account liberalization should not be made a condition for the use of IMF resources.

An open, liberal system of capital movement enhances global prosperity.

Debt Initiative Progresses, with Renewed Appeal for ESAF Financing

The Interim and Development Committees noted progress in implementing the joint IMF-World Bank initiative to ensure that heavily indebted poor countries (HIPCs) with a good track record of adjustment attain a sustainable debt burden over the medium term. Ministers welcomed the recent decisions by the IMF and the Bank to assist Uganda, Bolivia, and Burkina Faso, and the preliminary talks on Côte d'Ivoire, Guyana, and Mozambique. Members of the Development Committee noted that additional resources would be needed to help finance the African Development Bank's full participation in the Initiative and the IMF's contribution to the Initiative.

The Interim Committee welcomed efforts to secure the financing needed for a self-sustaining Enhanced Structural Adjustment Facility (ESAF)—the centerpiece of the IMF's strategy to help poor countries and its vehicle for taking part in the HIPC Initiative. In discussing financing for the ESAF during 2001–2004—after which it becomes self-sustaining—Managing Director Camdessus said at the Interim Committee press conference that he was still seeking bilateral contributions from IMF members, but that if selling a limited amount of IMF gold "becomes indispensable to optimize the use of our resources...we will do that."

Quota Increase, SDR Allocation Agreed

The IMF's Executive Board agreed to recommend a 45 percent increase in IMF quotas, which would raise total quotas to SDR 209.5 billion. Of this increase, 75 percent would be distributed in proportion to current quotas; 15 percent in proportion to members' shares in calculated quotas to better reflect the relative positions of members in the world economy; and 10 percent among members whose current quotas are out of line with their positions in the world economy. Interim Committee Chairman Maystadt, at the Interim Committee press conference, noted that the quota increase would permit the IMF to consolidate its financial base relative to the size of the world economy and allow it to act, when needed, promptly and decisively.

The IMF's Board of Governors adopted a resolution approving a special, one-time SDR equity allocation of SDR 21.4 billion, which would equalize all members' ratio of SDRs to quotas at 29.3 percent. As Interim Committee Chairman Maystadt explained at the Interim Committee press conference, the equity allocation allows the 38 IMF members that have never received an SDR allocation to participate in the SDR system and will augment the reserves of countries with very low holdings, giving them a more comfortable cushion for coping with payments problems. A one-time equity allocation requires an amendment of the IMF's Articles of Agreement but would not affect its ability to allocate SDRs based on a finding of a long-term global need to supplement reserves.

Corruption Can Subvert Cooperation

At its September 22 meeting, the Development Committee agreed that corruption and weak governance undermine stability, private sector activity, and sustainable development—and risk eroding international support for development cooperation. The Committee urged a consistent and evenhanded approach and asked the IMF and the World Bank to take governance issues and corruption explicitly into account in lending and other decision making when they affect project or macroeconomic and country performance.

Ministers welcomed the Bank's plan to strengthen private-sector participation in infrastructure and encouraged the Bank to assist in the areas of finance, advisory services, risk mitigation, and knowledge and information. They also welcomed the consensus on a funding package for the Bank's Multilateral Investment Guarantee Agency (MIGA). ■

David M. Cheney
Editor, *IMF Survey*

Managing Director's Opening Address

Camdessus Calls for Responsibility, Solidarity In Dealing with Challenges of Globalization

In his opening address at the 1997 IMF–World Bank Annual Meetings, on September 23, IMF Managing Director Michel Camdessus noted the strength of the global economy and commended members for their efforts to ensure continued strong fundamentals and progress on structural reforms. But obstacles clearly remain to the achievement of sustained high-quality growth, he said. And the crisis in Asia was disturbing—all the more so because it was foreseen and preventable, yet still struck with full force, with high costs to neighboring economies through contagion effects. The crisis has both heightened awareness of the opportunities of globalization and underscored the dangers of adapting too slowly. This new context, emphasized the Managing Director, requires an even more acute and far-reaching sense of "responsibility" and "solidarity"—themes he stressed in his remarks, which are edited and excerpted below.

Responsibility

Let me mention three aspects of responsibility. First, vis-à-vis the market, responsibility involves maintaining the proper perspective about the benefits of private capital flows. There are risks in tapping global markets: sometimes they react too late, and sometimes they overreact. No country is immune to these risks. But markets also provide tremendous opportunities to accelerate growth and development, as Southeast Asia so vividly shows.

Thus, the lesson to be drawn from recent developments is not about the risks of globalization and still less about demonizing the markets, but rather about the importance of exercising good citizenship when tapping them. Countries cannot compete for the blessings of the global capital markets and refuse their disciplines. Hence, the importance of pursuing sound policies that give markets confidence, of respecting the signals they provide, and of maintaining transparent and market-friendly policies so that they can do their job.

Second, vis-à-vis national policies, responsibility involves avoiding macroeconomic imbalances and correcting them promptly when they arise. It also means making cost-effective use of public resources, explaining to citizens when and why policy changes are required, and taking the difficult steps to sustain growth in a timely manner. This is the constant refrain of the IMF, but it should also be the rallying cry of all who value high-quality growth, particularly those who defend the poor. It is the poor who are most likely to lose their livelihoods during economic downturns and who are least able to protect the real value of their meager incomes and savings during periods of high inflation. Thus, helping countries achieve monetary and macroeconomic stability, together with the necessary structural reforms, remains the IMF's major order of business.

Third, national responsibility entails getting policy priorities right. This obligation of each country benefits all. Here in Asia it means that countries must give priority to the pressing business of strengthening current account positions and ensuring financial sector soundness, rather than to spurring growth prematurely.

In Europe, in its momentous journey toward EMU [European economic and monetary union], it means giving at least as much attention to the urgent tasks of reforming social security systems and labor and product markets as to the precise decimals around the fiscal consolidation targets.

It also means that efforts to press on with macroeconomic adjustment must not delay other reforms that will enhance growth, make human development priority number one, and ensure that growth benefits are widely shared. Achieving all of this requires not only macroeconomic stabilization but also a range of broader reforms—a "second generation" of reform—to strengthen banking systems, allow labor markets to function better, create a more favorable climate for long-term investment, and level the playing field for private sector initiative. These reforms are not the icing on the cake but essential ingredients in achieving sustained, high-quality growth. This is why the IMF has focused increasingly on a broader reform agenda. The IMF now:

• is raising issues of income distribution in its ongoing dialogue with member countries and emphasizing the need for greater equality of economic opportunity;

• is speaking out more forcefully against unproductive spending, especially in countries with pressing social needs;

• has issued new guidelines on how it will deal with issues of governance. In some cases, our financial support has been interrupted or delayed due to concerns about corruption, accountability, and transparency;

• is helping its members increase the transparency of their economic policies to give policymakers more incentive to pursue sound policies, diminish opportunities for corruption, and make countries less vulnerable to the brutal reaction of markets when economic problems are eventually revealed;

• is building on the work of the Basle Committee, the World Bank, and others to develop a framework for financial sector stability, which will help it disseminate a set of internationally recognized best practices in the financial area; and

• is—far from being discouraged by recent events in Southeast Asia—all the more motivated to continue work on an amendment to the Articles of Agreement that will allow the IMF to promote freedom of capital movements.

You could ask us: "When you have such financial turbulence on your doorstep, is this the right time to talk about liberalizing capital movements?" We believe it is!

Freedom has its risks. But are they greater than those of complex administrative rules and capricious changes in their design? Is there any more fertile field for development and prosperity?

Certainly, the point is not to make a sacrifice on the altar of fashion. The point is not to encourage countries to remove capital controls prematurely or prevent them from using capital controls on a temporary basis, when justified. The objective is rather to foster the smooth operation of international capital markets and encourage countries to remove controls in a way that supports the drive toward sustainable macroeconomic policies, strong monetary and financial sectors, and lasting liberalization.

In a nutshell, we are striving toward a multilateral and nondiscriminatory system that provides necessary safeguards and proper transitional arrangements.

***Camdessus:** We are striving toward a multilateral and nondiscriminatory system that provides necessary safeguards and proper transitional arrangements for capital account liberalization.*

The IMF would, of course, continue to exercise surveillance and stand ready to provide advice, technical assistance, and, when appropriate, financial support for countries' adjustment efforts. We now have abundant evidence of the benefits of steady progress toward the freedom of capital movements and the prudence it requires. Let us now add this promising chapter to the work of our founding fathers. This certainly would have been part and parcel of their response to the challenges of today.

Responsibility is all of these things including this cautious but deliberate step toward liberalization. But responsibility must go hand in hand with solidarity.

Solidarity

What are the requirements for international solidarity in this new global context? Contagion effects can be so rapid, so overwhelming, so unfair to countries with sound policies that the first tenet of a charter for world stability is to "keep your house in order." The bigger the economy, the stronger the requirement. But no country is exempt, and no country should accept the risk of going down in history as one that triggered a domino effect.

But solidarity calls for more. In many instances, national efforts are likely to be more successful when bolstered with international support. And many challenges exceed the capacity of individual countries to resolve them alone. Many of the poorest nations, for example, still do not attract enough foreign investment. For them, foreign aid is crucial.

Industrial countries have a responsibility to help integrate the poorest countries into the global economy; open their markets; prosecute nationals who take part in corrupt practices in foreign countries; recognize that official development assistance is one of the best investments in building a more secure and prosperous world; refrain from promoting unproductive military expenditure through aggressive sales strategies; and provide mutual assurances that obviate the need for wasteful military buildups.

Neighbors should develop a "club spirit" to encourage each other to pursue sound policies.

In this globalized world economy, solidarity also calls for countries to complement IMF surveillance by joining voluntarily with their neighbors in mutual surveillance on a regional basis. The idea is to develop a "club spirit" among neighbors to encourage one another to pursue sound policies.

Such a tradition is most firmly established in Europe, where regional surveillance and peer pressure have produced an impressive degree of macroeconomic convergence. The Group of Seven countries also practice mutual surveillance. In Asia, there are signs of growing regional cooperation through regional groups and the region's rapid and sizable financial support for Thailand's adjustment program. This cooperation would be even more effective if regional dialogue ensured that the policies of individual countries are supportive of stable markets and high-quality growth throughout the region. To be effective, such regional surveillance has to be based on a sound analysis of the economic situation. The management and staff of the IMF are ready to contribute to regional surveillance. Supporting regional surveillance could be one of the important tasks of our Tokyo office, which we will inaugurate in December.

This suggestion does not detract from the responsibility of helping the IMF discharge its ever growing, ever more complex central responsibilities. The agreements on IMF quotas and SDRs again demonstrate members' tremendous confidence in and support for the institution. With these agreements, and the New Arrangements to Borrow, the IMF will be in a much stronger position to carry out its systemic role in this increasingly demanding global economy. We pledge to do our utmost to justify this confidence.

But there is another area where greater solidarity is needed—Africa. Earlier in this decade, sub-Saharan Africa was drifting toward the abyss of misery and marginalization. Now, thanks to the courage of leaders implementing adjustment and reform policies in the framework of ESAF [Enhanced Structural Adjustment Facility] programs, this trend is being reversed, and the region is now in the third consecutive year of positive per capita growth.

Heavily indebted poor countries [HIPCs] and the least developed countries recorded average growth of 5 percent last year, levels they are expected to maintain over the medium term. However, we must do more and better. Not only is there a most pressing human problem at stake, there is also a systemic interest in preventing marginalization of the poorest and providing them with a powerful boost toward an early, safe, and full integration into the globalized economy. Thus, it is indispensable to have a level of ESAF resources commensurate with its essential, continuing role and the IMF's contribution to the HIPC Initiative.

Progress under the HIPC Initiative has continued. We must support these efforts by finalizing the implementation of the compromise arrangement we adopted in September last year. I am certain that I can count on the support of all members and on an extra bilateral effort before the end of this year to optimize the indispensable financing package.

Another challenge on the horizon is the evolution of the international monetary system into a tripolar system dominated by the dollar, the euro, and the yen. With macroeconomic policies within these currency blocs likely to be determined largely by domestic policy considerations, factors contributing to world exchange rate stability will have to be kept permanently under review—both for the sake of these three major currencies and to promote a satisfactory exchange rate environment for countries outside these blocs.

We will need our members' support and renewed commitment to the multilateral approach. A new reflection on the best ways to facilitate effective international policy cooperation is needed, along with a strong center for international surveillance, multilateral consultation, and monetary collaboration—a role the IMF is mandated to fulfill. We are still some way from achieving this last aspect of international solidarity, but it is a goal that the membership, with the IMF, should now have high on its agenda. ■

Chairman's Opening Address

Bretton Woods Institutions and Members Must Adapt to Rapidly Changing Circumstances

Following are edited excerpts of the September 23 opening address of the Chair of the Annual Meetings, Mohammed K. Khirbash, Governor of the Bank and the IMF for the United Arab Emirates.

How will we make the transition into the twenty-first century? We have a critical responsibility to ensure that the state of current events does not prevent us from preparing for the demands of the future. The Bretton Woods institutions have to adapt to rapidly changing circumstances. The same is true for our countries and economies.

The success of these two institutions is largely a product of their ability to bring about a remarkable degree of consensus and productive action. Debate leads to better policies, better projects and programs, and most important, better results on the ground. The world economic environment remains broadly favorable for the achievement of our objectives. Most countries are achieving growth, with increased attention to an investment in people and increased concern for the environment.

The quality of this growth is sounder and more sustainable than it has been in a generation, largely as a result of sound economic and financial policymaking. Growth has been accompanied by low and declining inflation, thanks to prudent fiscal and monetary policies and more liberal trade policies.The countries best placed to benefit from globalization are those adapting to change and transforming their policies and structures to support more market-based, outward-oriented growth. Growth and integration are mutually reinforcing. Both depend, however, on the quality of policies and on the institutional and human capacity that support them. Many countries still lack the institutional and administrative capacity to formulate and implement the effective policies necessary in an increasingly integrated world economy.

The task ahead, for our countries and the Bretton Woods institutions, is to accelerate our efforts to achieve sustained growth and harmonious development, so that all may share in the benefits of globalization. All participants in the global economy must adapt to the changing realities of an increasingly interdependent world economy. Adaptability must be the hallmark of our work. We are required to change in ways that increase efficiencies, minimize costs, and bring increased benefits to our own people and the rest of the world. Many countries have come to recognize the important role of the private sector in contributing to the achievement of higher economic rates of growth.

The Bank and the IMF are becoming more effective and forward looking. Increasingly, they are working in a complementary fashion as they adapt to the changing needs of member countries. Let me highlight three areas.

Financial Sector Cooperation. Substantial progress has been made. Enhanced collaboration will ensure that financial sector problems are identified promptly, and that each institution takes the lead in its areas of primary concern. In areas of mutual interest, duplication of activity should be avoided.

Khirbash: All participants must adapt to the changing realities of an increasingly interdependent world economy.

Governance. The ability of the Bank and the IMF to adapt to changing circumstances is evident in their approach to the issues of governance. Promoting transparency, accountability, and institutional capacity is critical to successful, sound, and equitable development. The Bank and the IMF are increasingly able, within their competence and mandate, to assist a growing number of member countries to tackle corruption, and to help them develop effective administrative and financial systems.

Their roles in governance issues should contribute to the achievement of effective development.

HIPC Initiative. A concrete example of enhanced Bank-IMF cooperation is their effort to assist the heavily indebted poor countries. The HIPC Initiative is a striking development and a radical departure addressing the debt problems of these countries in a comprehensive fashion, including debt owed to multilateral institutions. We look forward to continued expeditious implementation of this initiative and further transfer of concessional resources to developing countries. We also

applaud the leadership shown by the Bank, the IMF, and the support of other creditors such as the Paris Club.

The Governors will join me in welcoming the initiatives taken by the IMF, under the leadership of Michel Camdessus, to strengthen its effectiveness in the aftermath of the Mexican crisis of 1994. These include strengthened surveillance and more effective financial support to member countries. The events of recent months affecting Thailand and other countries have tested the IMF's capacity to provide quick assistance to members in need. I am sure that the Governors will join me in commending the IMF's rapid and decisive assistance to Thailand and the Philippines. Nevertheless, the IMF must further improve its ability to serve its members. It must also constantly adapt to a changing world.

The World Bank and the IMF are becoming more effective and forward looking.

I welcome the IMF's work on issues related to capital movements. The growth of international capital markets is bringing major benefits to member countries, but recent events in Asia have again shown the dangers. The challenge facing the IMF is to help members maximize the gains, while managing and minimizing the associated risks. It can best do this by fostering liberalization of capital movements in ways that are consistent with a sound international financial system. I hope that the governors will join me in encouraging the Executive Board to make rapid progress toward an appropriate Amendment of the Articles of Agreement.

The Governors will also join me in welcoming the breakthrough in the negotiations for a new allocation of SDRs and for an increase in IMF quotas under the Eleventh General Review. The SDR allocation represents a reasonable compromise; it equalizes the ratios of quotas and SDRs for all members and addresses the issue of equity for those member countries that have not participated in previous allocations. I encourage the governors to adopt this resolution. With agreement now having been reached in the IMF's Executive Board on the quota increase, we hope procedures will be put in place to allow the new quotas to become effective as soon as possible. With strengthened resources and new initiatives, we will expect the IMF to play its role with increased effectiveness in the period ahead.

We live in a dynamic world in which the need for adaptability to change within a sound framework is paramount for success. This is true for each of our individual countries and for the two institutions that have the responsibility to ensure international monetary stability and promote economic development. ■

World Bank President's Opening Address

Wolfensohn Stresses Partnership to Meet Development Challenge of Inclusion

Following is a summary of the opening remarks by World Bank President James D. Wolfensohn on September 23 in Hong Kong, China.

From the start of his tenure as World Bank President, explained James D. Wolfensohn, one of his priorities has been to "take the pulse of development firsthand." In visits to the field he was repeatedly struck by the strength, energy, and enterprise of the Bank's clients. Their goals were essentially universal goals: the best for their children and families, peace and economic and physical security, a supportive community, and personal dignity. The full import of the development process was brought home to him, he said, by women in the favelas of Brazil who proudly displayed their charges and receipts for a project that had brought running water to their neighborhood for the first time. The pieces of paper represented the first time their names and addresses had appeared on an official notice. It was the first time their existence had been officially recognized—the first time they had been included in society. The challenge of development, Wolfensohn stressed, is all about inclusion.

Photo Credits: Denio Zara for the IMF.

State of Development

In its assessment of the state of development in 1997, the Bank found much to celebrate but much to lament. In East Asia, despite the "miracle," there were growing inequities between rural and urban areas and between skilled and unskilled workers. In the former Soviet Union, the elderly and the unemployed had become more vulnerable in the transition to market economies; in parts of Latin America, concentrated land ownership, crime, drug-related violence, unequal access to education and health care, and enormous income disparities had hindered progress and threatened stability. And in many of the poorest countries, population growth outpaced economic growth, with a resultant erosion of living standards.

The key challenge of development, Wolfensohn asserted, was to reduce these disparities within and across countries, draw more people into the economic mainstream, and promote equitable access to the benefits of development. The privileged might find it tempting—and in the short term, easy—to insulate themselves from these issues, but remaining oblivious to them, warned Wolfensohn, would be to live with a time bomb. The price of inaction will be greater inequities and the likelihood of increased global instability. "Without inclusion," he said, "too many of us will be condemned to live separate, armed, and frightened lives." There is one world, not two. It shares the same air, the same environment, the same financial system, the same epidemics. Crime, drugs, terrorism, war, and famine do not respect borders.

How can the challenge of inclusion be met? Wolfensohn emphasized that the countries most successful in reducing poverty and in sustaining growth have invested heavily in their people, put in place the right fundamentals, and not discriminated against their rural sectors. The results: large private capital inflows, rapid growth, and substantial poverty reduction.

But another message is also emerging from recent developments: there is a link between good economic performance and governance. Financial markets are demanding more information; weak or poorly supervised financial systems can falter, with severe implications for the poor; and corruption can flourish in the dark—hindering growth and social equity and creating an environment in which social and political instability can intensify. Public decisions, Wolfensohn argued, must be brought out into the "sunshine of public scrutiny"—to please the markets and to build the broad social consensus that the best-conceived economic strategies will require to succeed.

Development Community's Role

How can the development community assist in this process? A necessary first step, said Wolfensohn, is to halt the name-calling between civil society and multilateral development institutions. "We share a common goal," he observed, "and we need each other." Partnership is the key to a strong development effort, and it must rest on four pillars:

• National governments and the people of developing countries must be "in the driver's seat" (the process can not be donor driven).

• Partnerships must be inclusive—involving national and multilateral donors, nongovernmental organizations, the private sector, and others—with each tapping into its respective strength.

• Assistance should be offered to all countries in need, but resources must be used selectively to be effective. More people will be lifted out of poverty if assistance is concentrated on countries with good policies.

• The development community must look at its strategies anew. It must scale up its efforts from individual donor-financed projects to a focus on country-led national strategies, and then regional strategies. Approaches must be customized to suit local circumstances. And those in the development field must "hit hard" on the "key pressure points for change"—such as adequate infrastructure, social and human development, rural and environmental development, financial and private sector development, and educating women to ensure balanced development.

World Bank's Response

The key for the Bank in meeting the challenge of inclusion, said Wolfensohn, "is making sure not only that we do things right but that we do the right things." In human and social development, the Bank is mainstreaming social issues to better reach ethnic minorities, households headed by women, and other excluded groups. To promote sustainable development, the organization has completed a major rethinking of its strategy on the rural sector. Lending is now up, and innovative approaches—such as a market-based approach to land reform in Brazil—are being pursued. The Bank is also giving renewed attention to clean water and adequate sanitation—two often neglected but critical elements in the lives of the poor.


Wolfensohn: We must not only do things right, we must do the right things.

The Bank is coordinating the efforts of the World Bank Group—capitalizing "synergies" between the Bank, the International Finance Corporation (IFC), and the Multilateral Investment Guarantee Agency (MIGA)—to bolster the regulatory, legal, and judicial reforms needed to create a more conducive environment for private sector development and to attract foreign and domestic private capital. The Bank is also intensifying its work with the IMF and regional development banks to better address financial sector issues.

The Bank has made considerable progress in putting its own house in order, but it must do more—notably in strengthening the project pipeline and in increasing the resources it has on the front lines. But if there is a quantum leap to be made in development, Wolfensohn concluded, it could not be achieved by the Bank alone. Partnership and a collective change in attitude would be essential.

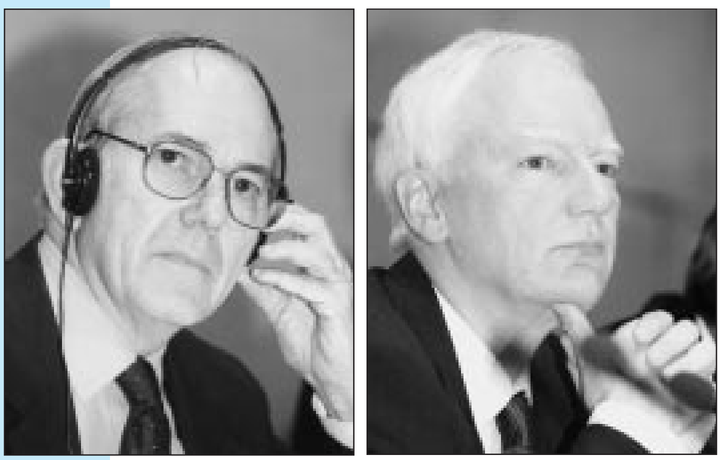
Interim Committee Press Conference

Maystadt and Camdessus Welcome Quota Increase, SDR Allocation, Discuss IMF's Future Agenda

Following are edited excerpts from the joint press conference given by Interim Committee Chairman Philippe Maystadt and IMF Managing Director Michel Camdessus in Hong Kong, China, on September 21.

MAYSTADT: At its meeting last April, the Interim Committee requested the IMF Executive Board to complete its work on quotas and SDRs, and to report in time for the Hong Kong meeting. The Committee today welcomed the agreements on these two issues.

The agreement on a special one-time allocation of SDRs is important because it will allow all members to receive an equitable share of cumulative SDR allocations. This is good news for the 38 countries that have never received an allocation of SDRs since they joined the IMF. It is also good news for countries with very low reserves, because this allocation will permit them to augment their reserves and provide them with a cushion in the event of balance of payments problems. This should enable these countries, and especially the poorest developing countries, to meet part of their reserve needs at a lower cost. It was these two reasons—the fact that many transition economies have never received an SDR allocation, and the concern for all members with relatively low ratios of SDR allocation to quotas—that allowed others to support what could be called the equity allocation.



Camdessus and Maystadt: It is in the interest of the international community to have a financially strong IMF.

With respect to quotas, the agreement reached is important because it will allow the IMF to consolidate its financial base relative to the size of the world economy. It will permit, when needed, prompt and decisive action by the IMF. The recent market turbulence in Asia, and the IMF's response, supports the view that it is in the interest of the international community to have a financially strong IMF.

But our meeting in Hong Kong, China, will not only be remembered for the decisions on quotas and SDRs. Indeed, the statement that the Interim Committee has adopted today on the liberalization of capital movements will also be a milestone in the history of the IMF. This statement provides the Executive Board and the staff of the IMF with the principles to guide their work on an amendment of the IMF's Articles of Agreement. With this amendment, the promotion of free international capital flows will become a specific purpose of the IMF, which will be provided with appropriate jurisdiction over capital flows.

Under the envisaged amendment, the IMF will have the task of helping countries progress toward full liberalization of capital movements at an appropriate pace, with members allowed to retain or impose temporary restrictions when needed. A development of the IMF's role along this path will help to maximize the gains from liberalization and limit the risks associated with capital flows.

On the recent events in Asia, the communiqué presents the Committee's conclusions on the lessons to be drawn by national policymakers and by the IMF itself. The emphasis is put on the need to ensure the internal consistency of macroeconomic policies, strengthen financial systems, avoid excessive external deficits, and maintain an adequate measure of exchange rate flexibility. As to the implications and preliminary lessons of the recent currency turmoil, two main points emerged from our exchange of views. First, all members commended the IMF for its prompt and effective response to the events in Asia. Second, the need was perceived to improve current arrangements and practices so as to be better equipped to prevent international financial crises.

Finally, we have the HIPC Initiative [the Initiative to assist heavily indebted poor countries].The Committee welcomed the pace of its implementation. There are already decisions for three countries, and we are expecting decisions for three more countries, we hope, before the end of this year. I do not claim that the problem of unsustainable debt is solved, but we are confident it can be done. However, this will only be the case if efforts to achieve debt sustainability are matched by the willingness of all creditors to share equitably the cost of the Initiative. My hope is that the spirit of compromise and goodwill that has prevailed so far in Hong Kong, China, will convince members that have not yet offered bilateral contributions to do so. I would like to conclude with a call to all members, and especially some important creditor countries, to make in due time a sufficient bilateral contribution to ensure that we have the funding required for the success of the HIPC Initiative.

CAMDESSUS: I cannot hide my deep satisfaction with the outcome of this Interim Committee. We are moving forward, and we are moving forward together with an impressive consensus on basic purposes. Attention may be drawn first to financing issues, and particularly to the impressive amounts of money that have been pledged. The doubling of SDRs in circulation brings the total to close to $60 billion. Then there is the quota increase of nearly $90 billion. The New Arrangements to Borrow—more than $45 billion—is now in the process of ratification in many countries. This is a decisive strengthening of the financial base of the IMF to enable it to do its job in this turbulent, new, globalized world.

But the basic agreements touch much more substantive issues. First is the statement on capital account liberalization, and second is a strong endorsement of our strategy to prevent crises or face episodes of turbulence. Great support was also given for our strategy to continue assisting developing countries in their adjustment and reform process, particularly when they embark on the demanding "second generation" of reforms. We also received endorsement of our continued efforts to help countries in transition in their transformation and also endorsement of our efforts to implement the HIPC Initiative quickly and to find for it the proper financing.

There are still many issues to address. We are not satisfied by the formula that has helped us, nevertheless, agree on a substantial quota increase. We want to make it reflect more properly the exact realities of this changing world. We also need to work hard in the next few weeks and months in strengthening the financing basis of the ESAF [Enhanced Structural Adjustment Facility] /HIPC.

QUESTION: One of the big shocks in the Thai crisis was the central bank revealing the size of its forward currency exposure. The Interim Committee communiqué states that "the Committee looked forward to the strengthening of the IMF's Special Data Dissemination Standard [SDDS]." Was there any discussion about including in the SDDS central banks' forward currency positions?

MAYSTADT: The strengthening of the IMF's SDDS means that we hope that more and more countries will subscribe to the SDDS. But strengthening the SDDS also means that the Executive Board will study whether it would be desirable to be more precise regarding some data that are to be made public within this framework. Indeed, there was a proposal that will be examined carefully by the staff and the Executive Board.

QUESTION: Will the IMF's inserting itself into the process of liberalization of capital movements speed up liberalization?

CAMDESSUS: The intention is certainly not to slow down the process. The intention is to have an orderly liberalization rather than a chaotic one. An orderly process implies that the liberalization is put in a broader context—a context of sounder, stronger macroeconomic balances and a context of stronger financial institutions that are capitalized properly and able to resist the temporary tensions resulting from the volatility in international capital markets that we will never completely eliminate.

QUESTION: Are some Executive Board members rejecting debt relief by refusing to agree to sell some IMF gold?

CAMDESSUS: Under the HIPC Initiative, we are not lending money but granting money—something the IMF has never done before. Last year, we achieved an unexpected and remarkable consensus of the Executive Board in favor of mobilizing the resources needed to finance this initiative. This financing is based primarily on bilateral contributions to the maximum possible amount. But if at a given moment in the implementation of this initiative we were confronted with the impossibility of securing the needed funds through this call for bilateral contributions and through the resources available in a special fund of the ESAF itself we would proceed with—as we put it then—the optimization of the use of our reserves. This agreement is still our operational framework. Instead of using resources that will in any event be available for use either directly or indirectly for helping the poor, we are tapping additional resources through bilateral contributions. If it becomes indispensable to optimize the use of our reserves, we will do that.

QUESTION: The communiqué talks about a code of good practices. Who is going to come up with the code for whom, and how would it be implemented?

MAYSTADT: The communiqué refers to the possibility of establishing a code of good practices in the area of transparency. Several members of the Committee emphasized the need to promote transparency and promote good practices. One member suggested that those practices could be put in what he called a code of good practices. This was a new idea. We did not want to rush into an approval of this idea without careful consideration, but we agreed that the Executive Board should study the possibility of establishing such a code.

QUESTION: The communiqué states that "rising capital flows may require some adaptation of exchange rate arrangements to changing circumstances." Please elaborate.

CAMDESSUS: In this globalized market, it is particularly important not only that all governments have the strongest possible macroeconomic framework and, indeed, compete for the excellence of their macroeconomic framework, it is also important that there be a strong consistency between the macroeconomic framework and the exchange system. Many of us had in mind, of course, the recent experience of Thailand, and the efforts of the authorities there to maintain the peg of their currency with the dollar at a time not only when the macroeconomic situation was becoming less strong but also when the U.S. dollar was finally re-establishing itself in a much more normal constellation with other currencies, and appreciating substantially. In the past, when markets were much more regionalized, this kind of situation could be sustainable, and governments tended to resist market pressures or to gain time by intervention. In this new world, it is impossible. More flexibility in exchange rate policy is of the essence. This is so not only to protect countries against powerful waves of speculation but also to convey the proper signals earlier to investors and to the authorities—who, confronted much earlier with the realities of the markets, might be expected to take any necessary corrective measures sooner.

QUESTION: How do temporary controls on capital flows fit with what was agreed to today on capital account liberalization?

MAYSTADT: The possibility of introducing temporary restrictions in exceptional circumstances, and with prior approval of the IMF, is included [in the Hong Kong Statement]. It is only in exceptional circumstances and with prior approval of the IMF that we could envisage such temporary restrictions. The most important thrust of the statement annexed to the communiqué is that we all agree on the goal—full liberalization of capital movements, which we all agree should be done in an orderly manner and at an appropriate pace to avoid the necessity to go back.

QUESTION: What is the IMF's agenda for the future?

CAMDESSUS: Let us take current account convertibility. We have made enormous progress during the last few years, but we have only 140 countries adhering to Article VIII. So we still have 41 countries to go. Then we have the job of creating the conditions for capital account convertibility for the entire membership, recognizing that only a few countries are already there. The new mandate in this area will occupy us for a number of years. Quite separately, we will have a lot to do with our 181 members, working with them toward achieving more prosperity and higher-quality growth. The Interim Committee's declaration last year concerning a Partnership for Sustainable Global Growth, particularly with respect to the second generation of reforms, opened an enormous agenda.

MAYSTADT: The creation of European economic and monetary union and the introduction of the euro will represent a major change in the international monetary system. It might be possible in some years' time to relaunch the debate on the best ways to introduce rules that might ensure more stability in the international monetary system. I think, in due course, the IMF could play a crucial role in this matter. ■

Interim Committee Communiqué

Ministers Commend IMF's Response to Asian Events

Following is the text of the communiqué issued after the September 21 meeting of the Interim Committee of the Board of Governors of the IMF in Hong Kong, China.

1. The Interim Committee held its forty-ninth meeting in Hong Kong, China, on September 21, 1997, under the Chairmanship of Mr. Philippe Maystadt, Deputy Prime Minister and Minister of Finance and Foreign Trade of Belgium.

2. The Committee welcomed the generally favorable prospects for the continued expansion of world output and trade. There are, nevertheless, risks that confront individual countries and that could also affect the world economy, if not decisively addressed.

In the advanced economies as a group, growth with low inflation is projected to continue. However, sustained fiscal consolidation remains a challenge for many countries, requiring resolute policies over the near and medium term. Exchange rates among the major currencies should reflect economic fundamentals, bearing in mind the importance of avoiding large external imbalances. In countries that have reached high levels of resource use, including the United States, monetary policy will need to guard against the re-emergence of inflation. In continental Europe, monetary policy should remain consistent with sustained expansion of domestic demand. The challenge for Japan is to achieve the objective of domestic demand-led growth with a supportive stance of monetary policy while proceeding vigorously with its structural reform program and further consolidating its fiscal position over the medium term. High levels of structural unemployment in several European countries point to the pressing need for more determined efforts to increase efficiency and adaptability in labor and product markets and to reform tax, social benefits, and other entitlement systems.

The growth performance and prospects of developing countries as a group have strengthened in recent years. However, further improvements are needed in many cases to achieve significant reductions in poverty. This highlights the need to maintain macroeconomic discipline and accelerate structural reforms, including "second-generation" reforms aimed at strengthening public administration and financial sector management, developing human capital, promoting basic infrastructure, and fostering a conducive and transparent environment for private investment.

In some emerging market economies, large external imbalances and fragile banking systems have adversely affected investor confidence and exacerbated the risks emanating from volatile capital movements.

In the transition countries, growth has resumed following good progress, in most cases, with macroeconomic stabilization and structural reforms. Strengthening growth performance depends on speeding up legal, institutional, and other reforms that encourage private economic activity and investment. To safeguard and build upon the achievements thus far, inflation will in most cases need to be lowered further through disciplined macroeconomic policies.

3. The Committee welcomed progress made toward a successful European economic and monetary union (EMU) that contributes to stability in the international monetary system. The economic convergence achieved in Europe and the strong commitment to start EMU on schedule constitute a sound basis for securing a smooth transition to the euro on January 1, 1999. The best way to ensure a solid and stable EMU will be for its participants to demonstrate not only their commitment to the fiscal requirements of the Stability and Growth Pact, but also their resolve to attack the root causes of Europe's high unemployment.

4. The Committee reaffirmed the vital contribution of globalization to economic growth worldwide. Adherence by all members to the policy guidelines set out in the Committee's "Declaration on Partnership for Sustainable Global Growth" is essential to ensuring that all share in the benefits of globalization. The Committee welcomed the recent adoption by the IMF of guidelines on governance issues as well as the ongoing efforts to enhance the soundness of financial systems, notably the establishment of the "Core Principles of Effective Banking Supervision" developed by the Basle Committee in conjunction with the supervisory authorities in a number of emerging market economies.

5. The Committee noted that recent disturbances in Asian financial markets have again underscored the importance for policymakers in all countries to ensure the internal consistency of macroeconomic policies, strengthen financial systems, and avoid excessive external deficits and reliance on short-term foreign borrowing. Although the impact of recent financial market turmoil on some of the countries affected is expected to result in a slowdown of growth in the near term, the countries' economic fundamentals remain solid and their longer-term outlook is favorable, provided the required adjustment policies are sustained. The Committee also noted that the recent Asian experience has illustrated that rising capital flows may require some adaptation of exchange rate arrangements to changing circumstances. Regardless of a country's exchange rate arrangement, the maintenance of appropriate macroeconomic and structural policies consistent with the arrangement remains crucial.

6. The Committee commended the IMF for its prompt and effective response to the events in Asia, welcomed the support provided by the region, and invited the Executive Board to examine what further lessons could be drawn for the IMF's work and to report its findings to the next meeting of the Committee. In this context, the Committee recognized that the recent developments raised a number of analytical issues, including on the prevention of crises and contagion effects. The Committee stressed the importance of openness and accountability of economic policymaking, and of transparency, to achieving policy credibility and confidence building in a globalized environment. It would be useful for the IMF to work in this area, including the possibility of developing a code of good practices. Timely and accurate economic information is also needed to improve the functioning of markets. The Committee welcomed the IMF's Special Data Dissemination Standard and the recent voluntary release of Press Information Notices on the conclusions of IMF surveillance in individual member countries, making an important contribution to transparency. The Committee looked forward to the strengthening of the IMF's Special Data Dissemination Standard.

DAI Xianglong, Governor, People's Bank of China; CHEN Yuan, Deputy Governor, People's Bank of China; HUANG Xinghai, Assistant to IMF Executive Director for China; Carlo Azeglio Ciampi, Minister of The Treasury, Italy; and Antonio Fazio, Governor of Banca d'Italia.

7. The Committee reiterated its view that an open and liberal system of capital movements, supported by sound macroeconomic policies and strong financial systems, enhances economic welfare and prosperity in the world economy. The Committee adopted the Statement on "The Liberalization of Capital Movements Under an Amendment of the IMF's Articles" [Hong Kong Statement, see page 302] and considered that an amendment of the IMF's Articles will provide the most effective means of promoting an orderly liberalization of capital movements consistent with the IMF's role in the international monetary system. The Committee requested the Executive Board to accord high priority to completing its work and submitting a report and a proposed draft amendment to the Board of Governors.

8. The Committee welcomed the agreement reached by the Executive Board on both the size of the increase in quotas under the Eleventh General Review

and on the method to be used to distribute the overall increase in quotas. The Committee agreed that:

• The present total of IMF quotas would be increased by 45 percent;

• 75 percent of the overall increase would be distributed in proportion to present quotas;

• 15 percent of the overall increase would be distributed in proportion to members' shares in calculated quotas (based on 1994 data), so as to better reflect the relative economic positions of members; and

• The remaining 10 percent of the overall increase would be distributed among those members whose present quotas are out of line with their positions in the world economy (as measured by the excess of their share in calculated quotas over their share in actual quotas), of which 1 percent of the overall increase would be distributed among five members whose current quotas are far out of line with their relative economic positions, and which are in a position to contribute to the IMF's liquidity over the medium term.

The Committee requested the Executive Board to submit before the end of this year a proposed resolution for the approval of the Board of Governors to effect the agreed increases in quotas. The Committee reiterated its view that the formulas used to calculate quotas should be reviewed by the Board promptly after the completion of the Eleventh General Review.

9. The Committee welcomed the agreement reached by the Executive Board on an amendment of the Articles to provide all members with an equitable share of cumulative SDR allocations through a special one-time SDR allocation amounting to SDR 21.4 billion, which will double the amount of SDRs already allocated. Accordingly, it recommends the adoption by the Board of Governors of the proposed Resolution.

Capital Liberalization Essential to An Efficient Monetary System

Following is the text of the Interim Committee Statement on The Liberalization of Capital Movements Under an Amendment of the IMF's Articles, issued on September 21.

1. It is time to add a new chapter to the Bretton Woods agreement. Private capital flows have become much more important to the international monetary system, and an increasingly open and liberal system has proved to be highly beneficial to the world economy. By facilitating the flow of savings to their most productive uses, capital movements increase investment, growth, and prosperity. Provided it is introduced in an orderly manner, and backed both by adequate national policies and a solid multilateral system for surveillance and financial support, the liberalization of capital flows is an essential element of an efficient international monetary system in this age of globalization. The IMF's central role in the international monetary system, and its near universal membership, make it uniquely placed to help this process. The Committee sees the IMF's proposed new mandate as bold in its vision, but cautious in implementation.

2. International capital flows are highly sensitive, inter alia, to the stability of the international monetary system, the quality of macroeconomic policies, and the soundness of domestic financial systems. The recent turmoil in financial markets has demonstrated again the importance of underpinning liberalization with a broad range of structural measures, especially in the monetary and financial sector, and within the framework of a solid mix of macroeconomic and exchange rate policies. Particular importance will need to be attached to establishing an environment conducive to the efficient utilization of capital and to building sound financial systems solid enough to cope with fluctuations in capital flows. This phased but comprehensive approach will tailor capital account liberalization to the circumstances of individual countries, thereby maximizing the chances of success, not only for each country but also for the international monetary system.

3. These efforts should lead to the establishment of a multilateral and nondiscriminatory system to promote the liberalization of capital movements. The IMF will have the task of assisting in the establishment of such a system and stands ready to support members' efforts in this regard. Its role is also key to the adoption of policies that would facilitate properly sequenced liberalization and reduce the likelihood of financial and balance of payments crises.

4. In light of the foregoing, the Committee invites the Executive Board to complete its work on a proposed amendment of the IMF's Articles that would make the liberalization of capital movements one of the purposes of the IMF, and extend, as needed, the IMF's jurisdiction through the establishment of carefully defined and consistently applied obligations regarding the liberalization of such movements. Safeguards and transitional arrangements are necessary for the success of this major endeavor. Flexible approval policies will have to be adopted. In both the preparation of an amendment to its Articles and in its implementation, the members' obligations under other international agreements will be respected. In pursuing this work, the Committee expects the IMF and other institutions to cooperate closely.

5. Sound liberalization and expanded access to capital markets should reduce the frequency of recourse to IMF resources and other exceptional financing. Nevertheless, the Committee recognizes that, in some circumstances, there could be a large need for financing from the IMF and other sources. The IMF will continue to play a critical role in helping to mobilize financial support for members' adjustment programs. In such endeavors, the IMF will continue its central catalytic role while minimizing moral hazard.

6. In view of the importance of moving decisively toward this new worldwide regime of liberalized capital movements, and welcoming the very broad consensus of the membership on these basic guidelines, the Committee invites the Executive Board to give a high priority to the completion of the required amendment of the IMF's Articles of Agreement.

10. The Committee welcomed the recent progress made in the implementation of the HIPC Initiative, including the decisions, in principle, of the Executive Boards of the IMF and the Bank to provide assistance to Uganda, Bolivia, and Burkina Faso, and the preliminary-nary discussions on Côte d'Ivoire, Guyana, and Mozambique. The Committee encouraged countries that could qualify under the Initiative to expeditiously take the necessary adjustment measures to benefit from this special assistance.

11. The Committee welcomed the continuing efforts to help secure the resources needed to complete the financing of the ESAF and HIPC Initiatives. It noted that, in light of the bilateral pledges received or in prospect, and the need to continue making commitments under the HIPC Initiative, further steps to secure the timely funding of these initiatives would have to be considered soon.

The Committee will meet again in Washington, D.C. on April 16, 1998. ■

Development Committee Communiqué

Corruption Must Be Fought on Global Scale, Private Role in Development Needs Strengthening

Following is the text of the Joint Ministerial Committee of the Board of Governors of the Bank and the Fund on the Transfer of Real Resources to Developing Countries (Development Committee) communiqué, issued in Hong Kong, China, on September 22.

1. The fifty-sixth meeting of the Development Committee was held in Hong Kong, China, on September 22, 1997, under the chairmanship of Driss Jettou, Minister of Finance, Commerce, Industry, and Handicrafts of Morocco.

2. Helping Countries Combat Corruption and Improve Governance. Ministers agreed that corruption and weak governance undermine macroeconomic stability, private sector activity, and sustainable development objectives, and may erode international support for development cooperation. They emphasized that corruption is a global problem that requires complementary actions by all countries. While stressing that member governments have the primary responsibility for combating corruption and strengthening governance, they welcomed the more active involvement of the Bank and the IMF, each within their respective mandate, in responding to member governments requests to strengthen their institutions and performance in these areas, including the introduction of greater transparency in the public sector. They welcomed the relevant strategies and guidelines recently issued by the Bank and the IMF. The Committee stressed the importance of a consistent and even-handed approach, as well as the need to take governance issues and corruption explicitly into account in lending and other decision-making when they significantly affect project or macroeconomic and country performance. The Committee asked that the Bank and the IMF report to the Committee in a year's time on the implementation of their respective strategies and guidelines.

3. Ministers invited other multilateral development banks to develop similar strategies and guidelines. The multilateral development banks were encouraged, as a matter of urgency, to establish procurement procedures and oversight mechanisms of the highest standard and as uniform as possible, including antibribery provisions. Ministers noted the ultimate responsibility of borrowers for ensuring fair and effective procurement, and stressed the importance of multilateral development banks increasing their assistance to help build borrower capacity and accountability.

4. Ministers welcomed the efforts under way in other international and regional bodies to coordinate efforts to combat corruption. In particular, the Committee encouraged governments to criminalize international bribery in an effective and coordinated way.

ZHU Rongji, Vice Premier of China, and Driss Jettou, Chair of the Development Committee and Minister of Finance, Commerce, Industry, and Handicrafts for Morocco.

5. Multilateral Investment Guarantee Agency (MIGA). Ministers reiterated their support for MIGA's continued growth in response to the expanding demand for its services. They welcomed the consensus on addressing MIGA's resource constraints by

means of a three-part funding package comprising an IBRD grant of $150 million, paid-in capital of $150 million, plus $700 million of callable capital. Ministers urged the IBRD management and Board of Executive Directors to move swiftly to implement the $150 million grant. Ministers urged MIGA's Board to reach agreement on implementation of the remainder of the package. They also urged the MIGA Board to reach clear understandings on core policy issues as soon as possible. These measures would relieve MIGA's short-term financial constraints and provide it with a sustainable capital structure for the medium to long term. Ministers urged the MIGA Board and other relevant parties to come to closure on the capital increase by the time of the Committee's next meeting in April 1998.

6. Private Involvement in Infrastructure. Ministers welcomed the World Bank Group Action Program designed to strengthen the Group's ability to increase private participation in infrastructure in the context of its overall objectives to support poverty reduction and sustainable development. While ministers recognized that governments continue to play a significant role in infrastructure investment, they emphasized the important and increasing opportunities for more active private sector involvement. Ministers encouraged the Bank Group to strengthen its catalytic role through early and effective implementation of the Action Program's comprehensive range of assistance in the areas of finance, advisory services, risk mitigation, and knowledge and information. The Committee stressed the importance of coordination among the Bank Group based on agreed country frameworks and strategies.

Enhanced Bank-IMF cooperation in strengthening financial sectors is an urgent priority.

7. Implementation of the Debt Initiative for Heavily Indebted Poor Countries [HIPC]. The Committee welcomed the further progress that had been made in implementing the Initiative to support governments that show strong commitment to reform. The Committee also encouraged eligible countries to undertake the policy actions necessary to put them on the path to securing debt relief. Decisions to provide assistance of about $0.9 billion (in present value terms), which will generate debt-service reduction of about $1.5 billion, have been made for Bolivia, Burkina Faso, and Uganda; decisions on Côte d'Ivoire, Guyana, and Mozambique are expected in the near future. Ministers stressed the importance of adequate interim financing by all creditors. The Committee expressed appreciation for the continuing close collaboration among creditors in implementing the Initiative, including understandings among them on the approach to burden sharing. Ministers also appreciated that bilateral contributions of about $100 million had already been made or pledged to the HIPC Trust Fund (administered by the World Bank), and urged other governments to contribute as well. They also encouraged international financial institutions that have not yet finalized mechanisms for participation in the Initiative to do so as soon as possible. Ministers noted that additional resources will be needed to help finance the African Development Bank's full participation in the Initiative. They also noted the need for additional resources to finance the IMF's contribution to the HIPC Initiative for countries beyond those noted above and, more generally, the need to complete the funding of ESAF [Enhanced Structural Adjustment Facility].

8. Strategic Compact. The Committee welcomed the progress made in beginning to meet the Compact's ambitious objectives to strengthen the Bank's effectiveness, as reflected in Management's first semiannual progress report to the Executive Directors.

9. Bank-IMF Collaboration on Strengthening Financial Sectors. Ministers noted the importance for macroeconomic stability and growth of strengthening the financial systems of developing countries, as recent events have shown. They welcomed an increased emphasis on this area in Bank and IMF operations. Ministers viewed enhanced cooperation between the Bank and the IMF as an urgent priority and welcomed the recent agreement guiding increased collaboration to help member countries strengthen their financial systems.

10. Note of Appreciation. Ministers expressed their deep appreciation for the warm hospitality provided by the Chinese authorities and the Hong Kong Monetary Authority.

11. Next Meeting. The Committee's next meeting will be held on April 17, 1998 in Washington, DC. ■

Selected IMF Rates

Week Beginning	SDR Interest Rate	Rate of Remuneration	Rate of Charge
September 15	4.07	4.07	4.46
September 22	4.06	4.06	4.45
September 29	4.02	4.02	4.41

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 109.6 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.
Data: IMF Treasurer's Department

Group of Ten Communiqué

Ministers Stress Financial Stability, Welcome IMF Financial Surveillance

Following is the text of the communiqué of the Group of Ten industrial countries, issued in Hong Kong, China, on September 21.

1. The Finance Ministers and Central Bank Governors of the countries of the Group of Ten met in Hong Kong, China, on September 21, 1997, under the Chairmanship of Gerrit Zalm, Finance Minister of the Netherlands. They took note of reports from Mario Draghi, Chairman of the Deputies of the Group of Ten; Michel Camdessus, Managing Director of the IMF; Lawrence Summers, Chairman of Working Party 3 of the OECD; and Andrew Crockett, General Manager of the BIS.

2. Ministers and Governors welcomed the broad endorsement given to the concerted strategy to promote financial stability in emerging market economies that has been developed in collaboration with representatives of these economies. Given the financial market turmoil in Southeast Asia, which has many of its roots in weak financial systems, they stressed the importance of concrete and comprehensive implementation of the concerted strategy, which focuses on actions in three main areas: (1) creating a macroeconomic and institutional setting favorable to sound credit cultures and the efficient and continued operation of markets, (2) promoting effective stakeholder oversight and good governance of financial institutions, and (3) instituting sound regulatory and supervisory arrangements that support and complement market discipline. In this context they welcomed the finalization of the Basle core principles of effective banking supervision and stressed the importance of their endorsement and implementation by national authorities. They encouraged their Deputies to continue in their efforts to promote implementation of the concerted strategy in cooperation with representatives of emerging market economies. They welcomed the greater focus of IMF surveillance on the financial sector and the emphasis given to strengthening financial systems by the World Bank. They also noted the importance of effective collaboration among the international institutions on these matters.

3. In considering future work, Ministers and Governors welcomed their Deputies' continued attention to issues pertaining to the stability of the international monetary system and the Deputies' intention to focus on such questions as crisis prevention and crisis management. They also welcomed their Deputies' plan to undertake a focused study on the macroeconomic and financial implications of the aging of populations in consultation and cooperation with the OECD and others carrying out work on this topic.

Theo Waigel, Germany's Federal Minister of Finance, and Jean-Claude Trichet, Governor, Banque de France.

4. Ministers and Governors welcomed the progress made to bring capital account liberalization within the explicit mandate of the IMF, and noted the importance of continued rapid progress toward an amendment of the IMF Articles.

5. Ministers and Governors reviewed the General Arrangements to Borrow and endorsed the proposed renewal of the Arrangements without modification for a further five-year period from December 26, 1998. They also welcomed progress made so far in establishing the New Arrangements to Borrow.

6. The Chancellor of the Exchequer of the United Kingdom, Gordon Brown, was elected Chairman of the Group of Ten for the coming year. ■

New Press Information Notices

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

Dominican Republic, No. 97/26, September 17
Bolivia, No. 97/27, September 19

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

Group of 24 Communiqué

Ministers Call for Progressive, Flexible Approach To Capital Account Liberalization

Following is the text of the press communiqué issued after the meeting of the Ministers of the Intergovernmental Group of 24 (G-24) on International Monetary Affairs on September 20 in Hong Kong, China.

I. World Economy and Monetary System

1. Developments in recent years confirm the leading role assumed by the developing world in the growth of the global economy and its significant input to the expansion of world trade. This increasing contribution reflects the stabilization and reform efforts that many countries have pursued in order to maintain sustainable growth with price stability. Ministers consider that this trend of faster growth of the developing world, relative to the industrial countries, should be appropriately reflected in the decision-making processes of the Bretton Woods institutions.

Antonio Casas González, Chair of the Group of 24 Ministers, and William Larralde, Chair of the Group of 24 Deputies.

2. Growth prospects in Asia are being affected by the adverse shock to the dynamic Southeast Asian region resulting from the recent turmoil in financial markets and by the effects of this turmoil on Japan's recovery, given that this region provides large markets for Japan's exports and capital. While recognizing that domestic policy weakness contributed to this crisis, Ministers emphasize the need to acknowledge the role of speculative activities and other factors in the external environment that provided the backdrop against which the financial crisis spread, through contagion effects, to a number of countries both within and outside the region, including those with sound macroeconomic fundamentals. Ministers underline the need to explore the interplay of domestic and external factors in the onset and containment of crises.

3. Ministers welcome the timely response of the IMF to the immediate problem in Southeast Asia and the substantial support package mobilized by Thailand's neighboring countries as a demonstration of regional solidarity. The Emergency Financing Mechanism, established in the wake of the Mexican crisis, was activated to contain the crisis and underscores the need to set up complementary and coordinating mechanisms within the World Bank Group and regional institutions to expedite the processes for the provision of financial support. Ministers consider this essential to deal with the need to buttress and impart confidence in domestic financial systems, and banking sectors in particular, that are exposed to the volatility of markets.

4. Recognizing the potentially adverse impact of large fluctuations among the major international currencies on developing countries, Ministers consider it imperative that the IMF fully exercise its powers to ensure effective surveillance over the macroeconomic policies of the countries involved in the management of these currencies. They believe that, in the perspective of an emerging tripolar system, the issue of reform of the international monetary system should be brought forward on the agenda of the world community.

II. Capital Account Liberalization

5. While recognizing the benefits for the world economy of greater freedom of capital movements, Ministers emphasize that the capital account liberalization process could put additional stress on the economies that are already straining to adjust to globalization. Ministers agree that, in particular circumstances, precautionary and price-based measures could help countries protect economic stability and sound macroeconomic management.

6. Ministers agree to support further work on the orderly liberalization of capital movements as a prelude to any amendment of the IMF's Articles. They emphasize the need for a progressive and flexible approach, even under any transitional arrangements, to enable members to adjust the pace and sequencing of the liberalization of their capital account, in light of their policy, institutional, and financial conditions. While reiterating that the IMF should play the leading role among international organizations in promoting capital account liberalization, Ministers call attention to the need for the IMF to avoid institutional overstretch, as well as dupli-

cation and potential conflicts with other relevant agencies and agreements. They also emphasize the need for adequate technical assistance and financing assurances to help countries to move toward capital account convertibility. In addition, they stress that: (1) the liberalization of the capital account should not be made a condition for the use of IMF resources; (2) restrictions arising from measures taken by members for prudential and financial market development purposes should benefit from flexible approval policies; and (3) the treatment of foreign direct investment and restrictions for security reasons should be outside IMF jurisdiction.

III. Governance

7. Ministers reiterate their commitment to the principles of good governance, which include transparency, accountability, and the rule of law. While noting the recent efforts of the IMF and the World Bank to clarify their potential roles within their respective mandates in the strengthening of governance and reduction of corruption at the national and international levels, they reemphasize the need to avoid the application of conditionalities based upon subjective judgments in these areas and to ensure uniformity of treatment of members based on objective criteria. Ministers express full support for cooperative international efforts to combat transnational bribery, money laundering, and other forms of economic crime.

IV. SDRs and IMF Quotas

8. Ministers welcome the agreement reached on a common benchmark ratio of net cumulative allocations to Ninth General Review of Quotas of about 29.32 percent, designed to address the equity issue. They emphasize that this one-time measure does not diminish or preclude the need for a general allocation. In this context, they also welcome the automatic allocation mechanism for new participants and note the treatment of countries in arrears with the IMF. Furthermore, Ministers stress the need to strengthen the role of the SDR in the international monetary system and intend to explore proposals to this end.

9. Noting the rapid action by the IMF in relation to the financial crisis in Thailand, Ministers stress the need, as in the earlier case of Mexico, for IMF support involving exceptional access in terms of quota. All member countries facing similar emergencies should receive commensurate support on the basis of the principle of uniformity of treatment. These events underscore the need for a substantial expansion of the IMF's own resources and a more predictable and positive IMF response to financial emergencies. Ministers reiterate the need for a meaningful increase in quotas, which should be predominantly equiproportional. In this context, Ministers endorse assurances regarding the maintenance of the representation of developing countries on the IMF's Executive Board and the modernization of the formulae for determining quotas in future reviews.

V. Mobilization of Resources and Debt Issues

10. Negative developments occurred with respect to official development assistance (ODA), as evidenced by the proposed reduction in the level of commitments in Japan's aid budget, once the largest donor. The percentage of combined donor GNP devoted to ODA has continuously declined over the past 50 years and in 1996 fell to its nadir. Ministers emphasize the need to reverse this declining trend in order to help recipient countries alleviate poverty and reach sustainable growth. In this regard, they commend Denmark's ODA efforts and welcome the recent initiatives by the United Kingdom to embrace the 0.7 percent of GNP target.

11. Ministers urge that intensive efforts should continue to secure adequate funding for IDA [International Development Association]. They stress that the burden-sharing arrangements for the replenishment of IDA-12 should bring back the level of funding to that of IDA-10 in real terms—the level that is commensurate with the needs of the poorest countries. Looking to the future, Ministers reiterate their request for an in-depth exploration of complementary funding mechanisms. They call upon the donor community to support the Partnership for Capacity Building in Africa Initiative in order to optimize the use of IDA resources.

12. Ministers urge that a consensus be reached without delay in the MIGA Board on additional operating and callable capital for enlarging its resources to support a ten-year underwriting strategy. This would enable MIGA to continue to diversify its guarantee activities at a pace that responds to the growing involvement of the private sector in infrastructure and other projects in the developing countries.

13. Ministers express concern about the slow progress made to date in implementing the debt initiative for the heavily indebted poor countries (HIPCs). While they note the preliminary agreements to implement the HIPC Initiative, they call for a timely finalization of those agreements in order to allow eligible countries to benefit from the initiative. They appreciate the World Bank Board's recommendation to allocate an additional $250 million from the IBRD surplus to the HIPC Trust Fund to meet the Bank's share of debt relief, as well as the authorization by the IMF's Board of a transfer of up to SDR 180 million from the Enhanced Structural Adjustment Facility (ESAF) Trust Reserve Account to finance special ESAF operations under the HIPC Initiative. Ministers emphasize the need for Paris Club members and other bilateral official and commercial creditors to adhere to the principle of fully proportional burden sharing. In this regard, Ministers note with appreciation the debt relief being provided by some developing countries under the aegis of the Paris Club, and

they express the hope that these countries would not be called upon to bear a disproportionate share of the overall provision of concessional resources to the HIPCs. Ministers again urge that, in order to allow beneficiary countries to reach debt sustainability rapidly and avoid additional costs associated with delays in debt relief, the period between the decision and completion points should be shortened and interim assistance should be provided.

14. Ministers reiterate their strong support for the continuation of ESAF operations and express serious concern about the lack of consensus on its funding modalities in the interim period (2001–2004). They stress the urgent need for additional financing from the sale of a portion of the IMF's gold as a valuable supplement to existing resources.

VI. UN and Bretton Woods Institutions Collaboration

15. Ministers note the recent adoption by the General Assembly and the Economic and Social Council of the United Nations of several resolutions relating to the need to strengthen the relationship and collaboration between the UN and the Bretton Woods institutions, at both the intergovernmental and secretariat levels. Ministers express the view that the idea of organizing an international conference with a broad agenda on the financing of development is timely, and to assure its success, this should be a joint endeavor of the United Nations and the Bretton Woods institutions.

VII. Note of Appreciation

16. Ministers express their profound gratitude for the invitation and hospitality provided by the Chinese authorities and the Hong Kong Monetary Authority, and they thank them for the excellent arrangements made for the meetings.

VIII. Next Meeting

17. The G-24 Ministers will meet again in a special session in Venezuela in January 1998. ■

Managing Director's Closing Address

Camdessus Welcomes Consensus on Sound Policies and Continued Strong IMF Surveillance

Following are excerpts of the concluding remarks by IMF Managing Director Michel Camdessus delivered on September 25.

This has been quite a fruitful Annual Meeting. During the past few days, we have had extensive, thought-provoking discussions about the challenges of global markets. And we have made substantial headway in equipping the IMF to help its members meet these challenges. Recent developments in several southeast Asian markets have, of course, been ever present in our minds. Yet this beautiful, dynamic city of Hong Kong has been a constant reminder of what can be achieved in a free and open economy. Against this backdrop, four major themes have emerged.

Global opening and integration offer the only path to greater global prosperity.

First, you have expressed your conviction that global opening and integration offer the only path to greater global prosperity. Many have cautioned against allowing market turbulence to divert us from the critical task of fostering closer financial integration. Indeed, many of you have pointed to the role that the free movement of capital can play in accelerating investment and growth. Notwithstanding the problems of recent months, this region testifies to the benefits that can spring from the productive use of capital inflows over the longer term. These recent events should not cloud that reality.

Second, in full recognition of these long-term benefits, you have reconfirmed that the time has come to give the IMF a mandate to promote the orderly liberalization of capital movements, and thereby add a new chapter to the Bretton Woods agreement. In so doing, you have echoed the bold vision contained in the Interim Committee's Hong Kong statement—a vision of orderly, lasting liberalization backed by sound national policies and a solid multilateral system for surveillance and financial support. That bold vision—as the Interim Committee has said—will be implemented cautiously.

You have also given considerable attention to what this liberalization must entail. Many of you have emphasized the need for adequate flexibility to take account of countries' differing stages of economic and financial development; I can assure you we have this requirement clearly in mind. Many have also pointed to the need to strengthen domestic banking systems and the important role that IMF technical assistance can play in this regard. Here, too, I can confirm that the IMF and the Bank will work closely with members to help strengthen financial systems and disseminate best practices on the basis of the new framework for financial sector soundness.

And all of you have recognized the vital importance of sound economic policies and the continuing need for strong IMF surveillance. Again, we will continue to do all that we can to ensure that our policy advice is timely and on the mark. And we will stand ready to give financial support to countries' adjustment efforts, when warranted.

I know that a number of you still have concerns about contagion and speculative pressures and are asking yourselves what more could be done to limit their effects. Having had these meetings here in Asia, we now understand those concerns better. Several of you have also come with ideas about how the interactions between governments, markets, and the international institutions could be made to work more smoothly. We will be reflecting on these ideas over the coming months. But, as you may recall, the Governor from the Philippines has offered a good starting point for our reflection. He said, "Volatile capital flows will continue to be a challenge. But the answers are not in a return to controls, but in managing these flows better. The answers are not in restricting capital markets, but in making them work better. And the key to this is a higher level of disclosure and transparency so that players act based on timely and accurate information."

Governor Gordon Brown of the United Kingdom made the same point in a slightly different way. He said, "The turbulence in the Southeast Asian economy has brought to our attention a truth that applies to us all—that, in addition to pursuing prudent policies, there is nothing more important for maintaining stability than effective decision making based on openness, transparency, and accountability." Many others of you have also stressed this point.

This brings me to the third conclusion that emerged from your discussions: the vital importance you attach to good governance in all its dimensions. Not so long ago, this subject was virtually taboo in the multilateral institutions; today, it is on everyone's lips and, I hope, at the top of everyone's agenda. There can be no doubt but that good governance, including the rule of law, is absolutely essential—both in order to realize the benefits of this new global economy and to manage its risks. As I have heard so many of you say, good governance is not only a moral necessity, it is an economic one as well. For this reason, you can count on the IMF to play its part in promoting good governance in all member countries in accordance with the mandate you have recently given us.

Fourth and finally, you have emphasized that when problems do emerge, as surely they will continue to do, the IMF must be ready to respond with its financial support. We were able to do this in Thailand. Your agreement to increase IMF quotas by 45 percent will substantially enhance our ability to continue meeting our systemic responsibilities. The decision on the one-time equity allocation of SDRs, through an amendment of the IMF's Articles, is also an important breakthrough, allowing all members to participate in the SDR system on an equal footing. Meanwhile, during these past few days, the number of countries adhering to the New Arrangements to Borrow has increased to 15, with credit arrangements of over SDR 15 billion. I do hope that participants that have not yet taken the steps needed to adhere to the NAB decision will do so, so that these supplementary credit lines can enter into force as soon as possible.

Good governance is not only a moral necessity, it is an economic one as well.

Governors, all of you have expressed strong support for the poorest countries struggling to be included in the global economy. Yet there is a major piece of our financial architecture that is still incomplete—the financing needed to ensure a continuous role for the Enhanced Structural Adjustment Facility [ESAF], and the IMF's contribution, via ESAF, to the joint heavily indebted poor countries [HIPC] initiative. We must rectify this. I am deeply gratified by the contributions that have been made to the interim ESAF, a number of which come from low-income countries and very small economies that want to express their solidarity with the poorest. But I am also troubled that we are still far from our goal, with important deadlines facing us in the next few months. I urge all those who have not yet done so to give their full, unconditional support to ESAF. I also urge everyone to join a consensus that will permit us to bring this effort to a successful conclusion. The IMF must have the means to support the adjustment efforts of those most in need.

Here let me add one additional point. I would not like to leave the impression that progress in Africa has been overshadowed by turmoil in Asia. I would not want the African Governors to leave Hong Kong feeling that their concerns had been left on the back burners in our kitchens. So let me refer back to what I said about Africa in my opening address: growth on the order of 4 1/2 to 5 percent is progress, but we must do more and better. ■

Managing Director's Closing Press Conference

Expanded Mandate, Increased Resources Make Meetings Among Most Successful in IMF History

Following are edited excerpts from the closing press conference given by IMF Managing Director Michel Camdessus in Hong Kong, China, on September 25.

CAMDESSUS: I feel encouraged by all that took place here: by the support of governors; by the very significant increase in financial resources of the IMF, which will further enhance our credibility; by the new mandate we have been given in the area of capital account liberalization, which is a very significant breakthrough—not only in the history of the IMF but possibly in the history of international economic relations—and by what governors have said about what they rely on us to do in this turbulent globalized world. We take very seriously what was at the beginning an initiative and is now a mandate—namely, the instruction to contribute to better governance in the world.

QUESTION: How do you respond to the condemnation by some at these Annual Meetings of the workings of the international financial markets and their impact on the policies of developing countries?

Stanley Fischer, IMF First Deputy Managing Director, IMF Managing Director Michel Camdessus and Shailendra Anjaria, Director of the IMF's External Relations Department.

CAMDESSUS: We have had an opportunity to discuss these concerns. The message we have received—which is captured in the Interim Committee statement—is to be bold in purpose in facilitating an orderly liberalization of capital but cautious in the implementation. We understand the desire for caution. We will be cautious, and we will tailor our initiative toward each country. But we need to be bold because the poorest countries will benefit from a world where the other, better-prepared countries will boldly pursue the liberalization of capital movement. This will create—for the whole world—more prosperity, more dynamism, more opportunity, and more interest for foreign investment in places with opportunities. Even in those countries where financial sectors are still being strengthened, growth will be enhanced by the dynamism that this liberalization of capital movements will give to the world economy.

QUESTION: What impact, if any, has the currency crisis in Southeast Asia had on Latin America, particularly Mexico and Peru? In addition, there is some concern in Latin America about the possible loss of the region's relative weight within the IMF as a result of the IMF quota readjustment. Please comment.

CAMDESSUS: However serious the crisis in Southeast Asia has been, it has not affected Latin America. Latin America is doing well. With respect to Mexico, I am delighted to be able to say that Mexico is now far stronger than it was before. Thanks to the caliber and the quality of the implementation of Mexico's programs and to excellent fiscal discipline and prudent monetary management and an acceleration of its reform process, Mexico will continue to grow at nearly 6 percent. The most promising aspect is the democratic normalization process that is under way. This should provide a far sounder basis for the implementation of growth policies, which are absolutely essential for broader efforts at social and human development.

As to Peru, many things have changed for the better, but it is now time to apply very strict discipline in all spheres of governance, economic, and social progress, and discipline is of the utmost importance so that Peru can become the land of opportunity that it deserves to be. With regard to the question on quotas—indeed, certain quotas will increase, and some will decrease. What will happen? Nothing. I hope that continued growth of the Latin American economies in the years to come will give them an even more strengthened position. But it is not so important that they increase in their quotas with the IMF, but rather that their growth performance improves.

QUESTION: An important side theme of this conference has been the issue of moral hazard. In particular, U.S. Treasury Secretary Robert Rubin and Federal Reserve Chairman Alan Greenspan—among others—have *emphasized the need for the IMF to make clear in future emergency financing programs that private uninsured investors and creditors will not be fully protected from loss. What is your response?*

CAMDESSUS: The issue of moral hazard concerns us every day. For example, just three weeks before the IMF was invited to design a program with Thailand, the Thai government had extended broad guarantees to the creditors of financial enterprises in difficulty. Should the IMF have requested the government to renege on its word? No. In the case of Thailand, we had to respect this commitment. For us, preserving the word of a government has priority over all other considerations. This being said, you can be sure that we try to discourage these kinds of moves from governments. Starting from that, we have done everything we could in the Thai program design to try to ensure that those who take unconsidered risk be punished. Our efforts have focused on sparing—as much as possible—taxpayer money from rescuing irresponsible, nonchalant financial managers.

QUESTION: *What is your view on the concept of an Asian fund that was proposed here at the meetings?*

CAMDESSUS: Based on 53 years of experience, the IMF has learned that what matters most in avoiding a crisis is surveillance and the appropriate distillation of its lessons. One of the lessons we have drawn from the Thai experience is the benefit of mutual regional surveillance and mutual exertion of pressure to persevere in the right direction and, if needed, to embark on corrective measures. The latter is fundamental—it was missing in the case of Thailand. We have learned something strong and positive from the Asian countries recently—there is a solidarity among them. Even if they are a little bit guarded in entering in mutual criticism, they are prompt to react when one of them is in trouble. The extremely expeditious way in which our support for Thailand was put together is a demonstration of it. So, I am relaxed. I do not see an immediate need for any special schemes to support Asia.

Under any plan involving softer conditionality—not only in Asia, but in Europe and in other regions—IMF conditionality would not be applied. Credibility, however, cannot be bought in the market place. To ensure credibility, it would be better to have only one source of conditionality, based on solid professional experience. So far, only the IMF has gained enough credibility to negotiate with a country in crisis the appropriate conditionality for obtaining support from the rest of the world.

Whatever scheme might be adopted, it should be based on IMF conditionality, be subordinated to the IMF to take risks, and accompanied by IMF financing. If the dialogue worked this way—with participation and support of the IMF—many crises will be avoided. I understand that circumstances may arise in which governments might be interested in seeking, for example, a kind of standing authorization from their parliaments to contribute to an operation of mutual support, if the need arises, at the invitation of the IMF. But I do not see any particular urgency there. I see even fewer reasons for big disputes in coming to these simple conclusions.

QUESTION: *International speculators attack economies with economic weaknesses. Is such action constructive or destructive for the world financial sector?*

CAMDESSUS: Speculators profit from an economy's weakness or rigidity, and we have witnessed temporary, but strong, speculative pressures. Of course, this is always a dangerous development, and from time to time it obliges countries to overreact so that they may preserve their basic balances and equilibrium. But speculation is part of market life and should not be outlawed; this would only create parallel circuits for speculation. The problem is that when speculation starts in a given country, it tends to result in a spillover effect. Neighboring countries then pay a price, even if the speculation against them is weaker than against the original victim. Policymakers must therefore be ready to resist speculation; if a country ignores warning signals, its neighboring countries—potential victims of a domino effect—must call for corrective macroeconomic measures. We have learned that speculation cannot be combated effectively by controls or by decisions of an administrative nature—they are combated by the excellence of macroeconomic policies. This being said, there are many complex issues that the international community must continue to address to try to discipline the marketplace. Several studies are already under way, particularly in one of the specialized committees in Basle.

We have focused on sparing taxpayers from rescuing irresponsible financial managers.

QUESTION: *Are you concerned about the direction of Brazil's current account deficit or its exchange rate situation?*

CAMDESSUS: The IMF, in its *World Economic Outlook*, projected a current account deficit for Brazil of 4 to 5 percent of GDP for next year. It is true that the current account deficit is high and that it is financed—at least half of it—by foreign direct investment. The authorities are, however, working patiently to strengthen the financial basis in order to reduce the public sector deficit, which is one of the counterparts of this current account deficit. They are strengthening the financial sector of the country and undertaking a very bold program of privatization. What is most encouraging is the flexibility with which the Brazilians have

adapted the exchange rate to the economic situation. I trust the Brazilians to continue on the solid path they have embarked upon under the Real Plan.

QUESTION: *The* World Economic Outlook *expresses some concern about the inflexibility of labor markets in Europe being a threat to the euro. Are you confident that policymakers will take appropriate action?*

If a country ignores warning signals, its neighbors must call for corrective measures.

CAMDESSUS: The rigidities you refer to explain at least 80 percent of unemployment in my own country, in Germany, and in others. We cannot leave all of these poverty traps open in Europe. It is time to move on. Europe has been able, in times of low economic activity, to put the fiscal numbers in order. But I would like to emphasize that we should not contrast efforts to consolidate the budget with efforts to reform and modernize the labor markets, the pension regimes, or the social security regimes, because they are essentially the same thing. A vicious circle is developing in Europe through overly generous and rigid systems of social protection, which impose tremendous costs in the budget, precipitate low activity, and increase unemployment. This must be stopped, and I call on the leadership in Europe to address these issues squarely.

QUESTION: *How do you feel about Russia's desire to join the Group of Seven next year, and its intention to seek a "friendly divorce" from the IMF?*

CAMDESSUS: We look forward to the G-7 opening its door to those who are in a position to play a constructive role in the global economy, and we were delighted to have contributed somewhat to opening the doors of the Paris Club to Russia. I celebrate Russia's desire for a friendly divorce from the IMF—it will mean success for the IMF—a success that I have never doubted.

From the Executive Board

Cameroon: ESAF

The IMF today approved a three-year loan for Cameroon under the Enhanced Structural Adjustment Facility (ESAF), in an amount equivalent to SDR 162.1 million (about $219 million), to support the government's economic program during 1997/98–1999/2000. The first annual loan, in an amount equivalent to SDR 54.0 million (about $73 million), is available in two equal semiannual installments.

Background

Following an eight-year period of economic decline, the Cameroonian economy has gradually strengthened as a result of the positive effects of the 1994 devaluation of the CFA franc and accompanying reform measures. Real GDP, which had declined an annual average of 4 percent during those eight years, rose by 3.3 percent in 1994/95 and by an annual average of 5 percent during 1995/96–1996/97. Average annual inflation, as measured by the change in consumer prices, fell to 6.4 percent in 1995/96 from 30.9 percent in 1994/95 and eased further to an estimated 4.3 percent in 1996/97. Significant progress was made in strengthening government finances, with budgetary improvements surpassing program targets, notwithstanding shortfalls in non-oil revenue. The pace of structural reform picked up in 1996/97; progress was achieved in the privatization program, civil service reform, the restructuring of the banking sector, and the securitization of domestic debt. The external current account deficit (including official transfers) is estimated to have narrowed in 1996/97 by about 1 percentage point to 1.3 percent of GDP, reflecting a 6–7.5 percent growth in volume of both oil and non-oil exports, while import volume is estimated to have increased by 6 percent.

Cameroon: Selected Economic Indicators

	1994/95	1995/96	1996/97[1]	1997/98[2]	1998/99[3]	1999/2000[3]
			(percent change)			
Real GDP	3.3	5.0	5.1	5.0	5.2	5.3
Consumer prices						
(12-month average)	30.9	6.4	4.3	2.1	2.0	2.0
			(percent of GDP)			
Current account balance						
(including grants)	–0.4	–2.4	–1.3	–2.3	–2.3	–2.1
Overall fiscal balance	–4.9	–2.8	–1.1	–2.0	–1.8	–1.7

[1]Preliminary.
[2]Program.
[3]Projections.

Data: Cameroonian authorities and IMF staff estimates

Medium-Term Strategy and 1997/98 Program

The main objectives of Cameroon's medium-term strategy are to place the economy on a sustainable growth path and to restore internal and external viability. Because of the magnitude of the deterioration in physical and human capital during 1986/87–1993/94, the rebuilding of the physical and economic infrastructure will require a firm and long-term commitment to structural reforms with a view to unlocking the country's considerable resources. Over the three-year period, the authorities' program aims at achieving a real annual GDP growth of at least 5 percent, limiting average annual consumer price inflation to 2 percent, and stabilizing the external current account deficit at around 2 percent of GDP.

The key policies in support of the government's medium-term strategy include (1) maintaining external competitiveness through efficiency-enhancing structural reforms; (2) reducing fiscal imbalances through a steady increase in the ratio of non-oil revenue to GDP and firm control over expenditure; (3) strengthening efficiency of the tax system by strictly enforcing tax laws, combating fraud and corruption, introducing a value-added tax (VAT), rationalizing income taxes, reforming forestry and agricultural taxation, and phasing out export taxes; (4) increasing public expenditure on social services, especially health and education, and the rehabilitation of infrastructure; (5) accelerating state enterprise reforms; (6) completing the financial sector reform, including insurance companies and the social security system; and, (7) improving public sector management and efficiency.

Consistent with this medium-term strategy, the program supported by the first annual ESAF loan aims at achieving a real annual GDP growth of 5 percent, reducing inflation to 2 percent, and containing the external current account deficit (including official transfers) to 2.3 percent of GDP.

To achieve these objectives, a major emphasis of fiscal policy will be to increase non-oil revenue to 12.2 percent of GDP in 1997/98 from 10.9 percent in 1996/97, particularly from improvements in tax administration, as well as from the forestry industry, to ensure that Cameroon captures a larger share of its natural resources and protects the environment. In order to maintain this momentum in the medium term, a consolidated tax law will be introduced in the 1998/99 budget, as well as a VAT and a general income tax. Expenditure policy will give priority to increasing outlays for education, health, and basic infrastructure. In the area of monetary policy, the Cameroonian authorities, in concert with the Bank of Central African States (BEAC), will aim at making interest rates more market determined.

Cameroon's external debt burden constitutes a formidable obstacle to a return to external viability. Without further restructuring of the claims of both bilateral official and commercial creditors, annual debt service is projected to remain above one-third of exports of goods and services and over 45 percent of government revenue for the program period. The authorities intend to approach Paris Club creditors to request a rescheduling on concessional terms of all eligible bilateral official debt service falling due during the program period and an eventual stock of debt operation. The authorities further intend to initiate formal negotiations on debt and arrears to commercial banks (London Club) after the Paris Club rescheduling is concluded.

Structural Policies

At the core of Cameroon's medium-term program is a comprehensive structural reform agenda aimed at further reducing the public sector's burden on the economy, liberalizing the energy and transport sectors, deepening the financial market, and consolidating the gains in external competitiveness. Key structural measures under the 1997/98 program relate to taxes, the civil service, the financial sector, public enterprises, the petroleum industry, the transport sector, and the legal framework. Noteworthy are the steps to enhance transparency and efficiency in the petroleum sector.

Addressing Social and Environmental Needs

Cameroon's objectives in the social area and in poverty alleviation are to be achieved through higher economic growth and new budgetary priorities to improve primary health and education, and to provide access to clean drinking water and to generic drugs. In addition, the rural poor will benefit from investment in roads and measures to reduce transport costs, which should help expand agricultural production and exports. In the environmental area, sustainable forest management plans are now required before new 15-year forestry concessions are granted. These, together with the new tax regime for the forestry sector, should also benefit conservation.

The Challenge Ahead

Maintaining and reinforcing the income gains achieved since the devaluation of the CFA franc in 1994 remain key challenges. This development objective will require increased spending on physical and social infrastructure, which in turn will require the unwavering commitment of the authorities to mobilize non-oil revenue, as well as to further liberalize the economy.

Cameroon joined the IMF on July 10, 1963. Its quota is SDR 135.1 million (about $182 million). Its outstanding use of IMF financing currently totals SDR 47 million (about $64 million).

Press Release No. 97/38, August 20

Ukraine: Stand-By

The IMF has approved a one-year stand-by credit for Ukraine, equivalent to SDR 398.92 million (about $542 million), to support the government's 1997–98 economic program. Of the total, SDR 36.27 million (about $49 million) is available immediately.

Ukraine: Selected Economic Indicators

	1995	1996	1997[1]	1998[1]
		(percent change)		
Real GDP	–12.0	–10.0	–3.0	3.0
Consumer prices (end of period)	182.0	40.0	15.0	12.0
		(percent of GDP)		
Consolidated budget balance	–4.9	–3.2	–4.6	–4.5
External current account balance	–4.4	–2.7	–3.6	–1.9
		(weeks of imports)		
Gross international reserves	3.7	5.2	6.0	7.4

[1]Program.

Data: Ukrainian authorities and IMF staff estimates

Background

Ukraine made considerable progress in stabilizing the economy under its 1996 economic reform program, supported by a stand-by credit from the IMF. Inflation was reduced rapidly, and for the first time since independence, a measure of stability was achieved, even though real GDP continued to decline. Progress was also made on the structural front in privatization, price liberalization, and trade liberalization. In addition, in mid-1997, VAT and enterprise profit tax reforms were introduced.

The authorities had intended to follow this stabilization effort with a comprehensive three-year macroeconomic and structural adjustment program that could be supported by the IMF under the Extended Fund Facility (EFF). However, domestic consensus could not be reached on several key elements of the program, and internal discussions continue on the details of a program that could be implemented in 1998 and beyond. Nevertheless, during the first half of 1997, the authorities followed the spirit of the proposed EFF program, implementing monetary and fiscal policies in line with specified internal targets.

The 1997–98 Program

The key objectives of the 1997–98 program, supported by the current stand-by credit, are to lay the basis for the resumption of economic growth through structural reforms, consolidate the gains already achieved, further reduce inflation, and strengthen the external reserve position of the National Bank of Ukraine. The program aims to reduce inflation from 40 percent during 1996 to 15 percent during 1997 and to 12 percent during 1998. The fall in output is projected to level off in the second half of 1997, partly because of an expected recovery of agriculture, and to record modest growth in 1998. The program also aims to increase gross international reserves from the equivalent of 5.2 weeks of imports of goods in 1996 to 6 weeks of imports in 1997, and to 7.4 weeks of imports in 1998.

To achieve these objectives, the consolidated budget deficit will be limited to 4.6 percent of GDP in 1997 and 4.5 percent of GDP in 1998. After adjusting for the arrears accumulation in 1996 and net payments of arrears in 1997 and 1998, the underlying budget deficit will be reduced from over 6 percent in 1996 to 4.3 percent in 1997 and 2 percent in 1998. A major objective of fiscal policy will be to reduce existing arrears on wages, pensions, and social benefits, while avoiding new arrears. For this, speedy implementation of measures to expand treasury operations and to better monitor expenditure commitments is vitally important. On the monetary front, a key element will be the maintenance of a stable exchange rate within a narrow band.

As under the previous stand-by credit, monthly monitoring should provide early warning signals if actions are necessary to keep the program on track, while quarterly reviews will provide for a continuous dialogue between authorities and the IMF.

Structural Reforms

Stabilization alone will not lead to a resumption of growth, and it is crucial that there be a fundamental reorientation of the economy to foster private sector activity and domestic and foreign investment. The main thrust of structural policies during the program is further deregulation, privatization, and demonopolization. These elements, along with improvements in the payments system, should also help to ensure better governance.

Deregulation efforts are expected to simplify business registration and to drastically reduce the number of activities subject to business licensing and registration. With small-scale privatization virtually complete, Ukraine will concentrate on privatizing medium- and large-scale enterprises. Several large monopolies and difficult privatization cases previously excluded will be privatized by end-1997. The program aims to develop further capital market institutions to support post-privatization trading in shares and to reform bankruptcy procedures to provide a workable framework for financial restructuring and liquidation.

Other structural reforms will include establishing more efficient labor markets through increased wage flexibility, implementing faster land reform and privatization within the agro-industrial complex, and widening and deepening energy sector restructuring. As part of its outward-oriented growth strategy, Ukraine intends to continue to maintain a liberal and transparent trade regime.

Addressing Social Costs

In recent years, there have been important improvements in the targeting of social protection programs in Ukraine, especially regarding subsidies for communal services. However, much remains to be done. The objectives for the medium term are to further strengthen means testing of social programs, to streamline the diverse set of allowances to provide a higher level of benefits to the most needy recipients, and to rationalize the pension and unemployment insurance systems.

The Challenge Ahead

While Ukraine has made great strides, formidable challenges remain as domestic consensus on the nature of reform is sought, particularly as parliamentary elections approach. Vigilance will be necessary to maintain current budget ceilings, to control expenditure commitments, and to track revenue developments that may warrant offsetting measures. It will be important to resist pressures from the enterprise sector to attempt to stimulate production by loosening monetary policy, as this could lead to higher inflation and undermine the program.

Ukraine joined the IMF on September 3, 1992; its quota is SDR 997.3 million (about $1.4 billion). Its outstanding use of IMF credit currently totals SDR 1.6 billion (about $2.2 billion).

Press Release No. 97/39, August 25

IMF Executive Board Agrees on SDR Allocation

The IMF's Executive Board has reached agreement on a proposal to amend the Articles of Agreement that will enable all members to receive an equitable share of cumulative SDR allocations. The proposed amendment will be communicated to the Chairman of the Board of Governors and submitted for approval by the Board of Governors at its 1997 Annual Meeting in Hong Kong, China. If approved, the proposed amendment then will need to be submitted to all members of the IMF for their acceptance. The proposed amendment will become effective when three-fifths of the members, having 85 percent of the total voting power, have accepted it.

The proposed amendment provides for a special one-time allocation of SDRs so as to equalize members' ratios of cumulative allocations to their Ninth Review quotas at approximately 29.32 percent. This allocation of SDR 21.4 billion will result in a doubling of SDRs already allocated, to a total of SDR 42.9 billion.

Press Release No. 97/43, September 20

Burkina Faso: Second Annual ESAF

The IMF approved the second annual arrangement for Burkina Faso under the Enhanced Structural Adjustment Facility (ESAF), in an amount equivalent to SDR 13.3 million (about $18 million), to support the government's economic program covering July 1, 1997 to June 30, 1998. The loan is available in two equal semiannual installments, the first of which can be drawn on September 15, 1997.

Under the 1996 program, Burkina Faso made important progress in strengthening its public finances and widening the revenue base, while containing and improving the composition of expenditure. Progress was also made in strengthening the banking system through privatizations and liquidations, and in resuming the pace of public enterprise privatization, which has slowed in recent years. Budgetary expenditure controls were improved, and the monitoring of tax exemptions intensified. Substantial real GDP growth was achieved, and inflation fell sharply after a spur in mid-1996.

The 1997/98 Program

The economic program for 1997–98 focuses on achieving a further increase in the budgetary revenue to GDP ratio and an acceleration of structural reforms. The key macroeconomic goals are to achieve a real GDP growth rate above 6 percent, contain the rate of inflation at 3 percent, and reduce the external current account deficit to 10.5 percent of GDP. To achieve these objectives, fiscal policy will aim at increasing the primary budgetary surplus to 1.9 percent of GDP in 1997 from 1.7 percent in 1996 through a rise in the revenue-to-GDP ratio to 12.9 percent of GDP in 1997 from 12.3 percent in 1996, reflecting the full year impact of the rise in the value-added tax rate to 18 percent from 15 percent implemented in September 1996, and a further increase of customs revenues on account of further reductions in exonerations from taxes. The monitoring of budgetary expenditures will be improved further, owing to the computerization of the budgetary cycle. Monetary policy will seek to contain bank credit expansion, in line with the inflation objectives of the program.

Structural Reforms

In the structural reform area, the government has taken a number of steps to speed up the execution of the privatization program and will also develop a strategy to open public utilities to private participation. In the agricultural sector, the government will deregulate the rice and sugar sectors, eliminate nontariff barriers to trade, and restructure the cotton sector by reinforcing the role of farmers' cooperatives. As part of the effort to facilitate private sector activities, the government will also improve the functioning of the judicial system by recruiting new magistrates and computerizing courts and tribunals.

Addressing Social Needs

The government has defined precise quantitative objectives in the education and health sectors aimed at correcting the major weaknesses of the past. The enrollment rate in primary schools and the enrollment rate for girls will be increased gradually over time, as will the number of health centers.

The Challenge Ahead

There are serious weaknesses in the present social indicators, indicating that substantial improvements have to be achieved over the next decade. This will require that not only more resources be allocated to health and education but also that improvements be introduced in the provision of services to ensure that resources are used more effectively.

Burkina Faso: Selected Economic Indicators

	1995	1996[1]	1997[2]	1998[2]	1999[2]
			(percent change)		
Real GDP	3.8	6.2	6.6	5.6	5.3
Consumer prices (end of period)	7.8	6.1	3.0	3.0	3.0
			(percent of GDP)		
Overall fiscal balance (deficit –)	–9.2	–8.9	–8.2	–8.4	–8.3
External current account balance, excluding official transfers (deficit –)	–11.3	–14.0	–11.6	–10.5	–10.2
			(months of imports)		
Gross official international reserves	10.5	9.2	9.2	9.6	9.5

[1]Estimates
[2]Program

Data: Burkina Faso authorities and IMF staff estimates and projections

Burkina Faso joined the IMF on May 2, 1963, and its quota is SDR 44.2 million (about $60 million). Its outstanding use of IMF financing currently totals SDR 63 million (about $85 million).

Press Release No. 97/40, September 9

Bolivia: Third Annual ESAF

The IMF, on September 10, approved the third annual loan for Bolivia in an amount equivalent to SDR 33.7 million (about $46 million) under the Enhanced Structural Adjustment Facility (ESAF), and an extension of the loan period through September 1998 to support the government's economic and reform program for 1997 and 1998. The loan will be disbursed in two equal semiannual installments, the first of which is available immediately.

Since 1985, Bolivia has implemented a comprehensive program of macroeconomic stabilization and structural reform in line with the medium-term strategy aimed at lowering inflation, promoting faster economic growth, and reducing poverty. In 1995 and 1996, the combined deficit of the overall public sector was extremely low by historical standards, which helped to combat successfully the inflationary pressures that had surfaced in 1995. Although the rate of economic growth of 4 percent in 1996 was less than satisfactory for substantial progress in reducing poverty, a pickup in foreign direct investment in 1996 suggests that structural reforms will begin to bear fruit and that Bolivia is on the road to higher sustained growth.

Medium-Term Strategy and 1997 Program

The authorities' medium-term strategy seeks to raise sustainable economic growth and alleviate poverty, while ensuring progress toward lower inflation and a viable balance of payments. The capitalization/privatization program and the pension reform should help achieve these goals, but at the same time these reforms will incur some additional fiscal costs over the next several years. As a result, fiscal policy is designed to absorb these costs gradually to ensure that domestic savings continue to increase and to help promote further development of local capital markets, which in turn would support more investment and growth. The government also plans to strengthen its social programs to reduce poverty further. Against this background, the combined public sector deficit is expected to increase to 3.3 percent of GDP in 1997 from less than 2 percent of GDP in 1996 and then decline to 3.2 percent of GDP in 1998 and 2.9 percent in 1999. Expected relief under the HIPC Initiative would support the planned expansion in social programs and help cover the cost of structural reforms.

Bolivia: Selected Economic Indicators

	1995	1996[1]	1997[2]	1998[2]	1999[2]
			(percent change)		
Real GDP	3.9	4.0	5.0	5.5	5.5
Consumer prices (end of period)	12.6	8.0	7.0	7.0	6.0
			(percent of GDP)		
External current account balance (deficit –)	–5.0	–5.1	–7.5	–7.5	–5.7
Overall fiscal balance (deficit –)	–1.8	–1.9	–3.3	–3.2	–2.9
			(months of imports)		
Gross official reserves	5.6	7.8	7.5	7.7	7.8

[1]Preliminary.
[2]Projections.

Data: Bolivian authorities and IMF staff estimates

In 1997, fiscal control was sustained during the political transition, and the new government that took office on August 6 endorsed the economic program, which demonstrates the continuity of economic policies in Bolivia. The economic program for 1997 aims to reduce inflation to 7 percent and achieve a GDP growth of 5 percent. There is likely to be a widening of the external current account deficit to 7.5 percent of GDP in 1997 from 5.1 percent in 1996, as imports of intermediate and capital goods rise significantly owing to investment by capitalized enterprises and the construction of a gas pipeline to Brazil. Excluding these imports, however, the deficit would remain at 2.4 percent of GDP.

Structural Reforms

The process of redefining the role of the state in economic activity will be completed under this program, and the new government has reaffirmed Bolivia's commitment to divesting public enterprises. Immediate plans include the privatization of the state metal smelter company, Vinto; two distribution companies of the electricity company, ENDE; and two remaining small companies of the former regional development corporations.

To further strengthen financial supervision, the central bank has issued regulations to adopt Basle norms for risk weighting of bank assets from mid-1998 and to raise the minimum ratio for capital to risk-weighted assets to 10 percent from 8 percent starting in 1999. By end-1997, it will issue new regulations on reserve requirements. A superintendency of pensions, created in March 1997, will become fully staffed and operational in 1997 to ensure that the new private pension funds can operate effectively as financial intermediaries.

To improve governance and public accountability, the government will intensify judicial reform and reforms of public service and customs. It will continue to strengthen the sectoral superintendencies that regulate public utility sectors and will introduce a program to improve commercial and property registers.

Addressing Social Needs

Although social indicators have improved moderately in recent years, about 70 percent of the total population and 90 percent of the rural population live in poverty. To improve the coverage and quality of public services, the government will continue to implement education reform; implement an integrated national health plan that covers, in particular, mothers, infants, and elderly citizens in needy urban and rural areas; accelerate the land titling process to strengthen the property rights of small farms; and increase investment in rural infrastructure, especially in roads, sanitation, and irrigation.

The Challenge Ahead

Bolivia has made significant economic progress since 1985 and the smoothness of the political transition demonstrates the broad acceptance within Bolivia of the direction of economic policies. Thus the challenge for the future is to maintain the strength of macroeconomic policies and to press forward with deepening the structural reforms, with the principal objective of promoting faster sustainable growth and further reductions in poverty.

Bolivia joined the IMF on December 27, 1945; its quota is SDR 126.2 million (about $171 million). Bolivia's outstanding use of IMF credit currently totals SDR 176 million (about $239 million).

Press Release No. 97/42, September 12

IMF Board of Governors Approves SDR Amendment

The Board of Governors of the IMF today adopted a resolution approving a proposal of the Executive Board for amending the IMF's Articles of Agreement to allow for a special one-time allocation of SDRs so as to equalize members' ratios of cumulative allocations to their Ninth Review quotas at approximately 29.32 percent (see Press Release No. 97/43). In order to enter into force, the amendment will require acceptance by three-fifths of the members of the IMF, having 85 percent of the total voting power.

Press Release No. 97/45, September 23

Books

Banking Soundness and Monetary Policy: Issues and Experiences in the Global Economy, edited by Charles Enoch and John H. Green ($29.50). Papers presented at the 1997 IMF Central Banking Seminar, focusing on measures to remedy banking sector problems and prevent their recurrence.

EMU and the International Monetary System, edited by Paul R. Masson and others ($35.00). Papers presented at a joint IMF–Fondation Camille Gutt conference; main themes include the characteristics of the euro and its potential as an international currency; EMU and the relationship between the IMF and its EMU members; and the transition to EMU.

External Finance for Low-Income Countries, edited by Zubair Iqbal and Ravi Kanbur ($22.50). Papers presented at a joint IMF–World Bank conference, focusing on the impact of external indebtedness on low-income countries, steps being taken to deal with debt problems, and the role of official and private capital flows in promoting sustained growth.

Fiscal Federalism in Theory and Practice, edited by Teresa Ter-Minassian ($35.00). An overview of the current literature on intergovernmental fiscal relations and the status of these relations in industrial, developing, and transition economies.

Instruments of Monetary Management: Issues and Country Experience, edited by Tomás J.T. Baliño and Lorena M. Zamalloa ($22.50). An examination of the design, implementation, and coordination of major monetary policy instruments, highlighting relevant country experiences.

Coordinating Public Debt and Monetary Management, edited by V. Sundararajan and others ($27.00). Papers from technical assistance workshops offering policymakers a unique presentation of operational issues and practical arrangements for the coordination of monetary and public debt management, and of the institutional issues in developing government securities markets.

Occasional Papers ($15.00; academic rate: $12.00)

No. 153: *Pension Regimes and Saving*, G.A. Mackenzie and others. A consideration of the impact of pension regimes on saving and how the development of private retirement plans can be stimulated.

Working Papers ($7.00)

No. 100: [Correction] *Controlling Fiscal Corruption*, Sheetal K. Chand and Karl O. Moene. An assessment of the effectiveness of incentives in controlling fiscal corruption, concluding that corruption at higher management levels must be contained for such incentives to be effective.

No. 104: *Potential Output Growth in Emerging Market Countries: The Case of Chile*, Jorge Roldos. An estimation of the potential output and sources of growth in Chile during 1970–96.

No. 105: *The Egyptian Stabilization Experience: An Analytical Retrospective*, Arvind Subramanian. An analysis of the successful Egyptian stabilization experience during the 1990s, focusing on its distinctive features and contrasting them with the recent experiences of other developing countries.

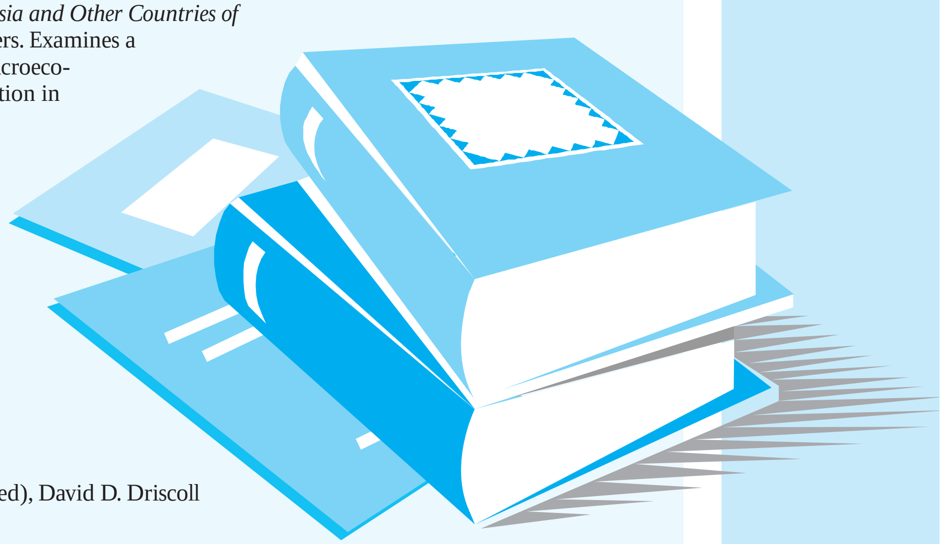
No. 106: *The Determinants of Banking Crises: Evidence from Developing and Developed Countries*, Asli Demirgüç-Kunt and Enrica Detragiache. A study of the factors associated with the emergence of systemic banking crises in a large sample of developed and developing countries in 1980–94, using a multivariate logit econometric model.

No. 107: *Tax Effort in Sub-Saharan Africa*, Janet G. Stotsky and Asegedech WoldeMariam. An analysis using panel data on 43 sub-Saharan African countries during 1990–95 to measure the determinants of the tax share in GDP and to construct a measure of tax effort.

No. 108: *Explaining and Forecasting the Velocity of Money in Transition Economies, with Special Reference to the Baltics, Russia and Other Countries of the Former Soviet Union*, Mark De Broeck and others. Examines a number of stylized facts on the behavior of key macroeconomic variables during high inflation and stabilization in countries in transition.

IMF Staff Country Reports ($15.00)

97/75: Indonesia (Recent Economic Developments)
97/76: Indonesia (Selected Issues)
97/77: Ireland
97/78: Republic of Lithuania
97/79: Mauritania
97/80: Peru
97/81: São Tomé and Príncipe
97/82: South Africa



Pamphlets (free)

What Is the International Monetary Fund? (revised), David D. Driscoll
Good Governance: The IMF's Role

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International Capital Market Developments Highlight Need for External Debt Management

As the integration of world capital markets continues apace, both mature and emerging capital markets must be prepared to adapt quickly to changing tides to reap the benefits of mobile capital while minimizing the risks of reversals in flows and shifting market sentiment. According to the IMF's recently published annual review, *International Capital Markets: Developments, Prospects, and Key Policy Issues*, activity in capital markets over the past year was strong, and movements in capital flows were generally in line with underlying economic fundamentals. Among the mature markets, low inflation and stable growth prompted investors to enter a broad spectrum of debt markets in search of higher yields. This contributed to a compression of interest rate spreads. For the emerging market countries, the IMF study suggests, in light of the recent turmoil in Asian markets, that the authorities need to understand better the sources and uses of foreign capital flows. In some countries, better management of external sovereign debt would mitigate the fiscal impact of external shocks.

Mature and emerging capital markets must adapt quickly to reap the benefits of mobile capital.

In the context of a generally favorable financial environment, the IMF study discusses two major international policy challenges: the implications of European economic and monetary union (EMU) for financial markets and the management of external liabilities by emerging market countries.

Developments in Mature Markets

In the past 12 months, major developments in the mature international markets took place against a background of a stable macroeconomic environment, characterized by widespread convergence to low inflation rates—and in some cases, price stability—and continued fiscal consolidation but with lingering disparities in growth rates. Several related developments dominated activity in the mature markets:

- large capital inflows into U.S. dollar fixed-income markets;
- convergence of interest rates to relatively low levels and a compression of yield spreads; and
- further advances in the major equity markets.

In the foreign exchange markets, the key development was the rise of the U.S. dollar against the yen and the deutsche mark. Foreign net purchases of long-term U.S. government and corporate bonds reached a record high in 1996, almost 70 percent greater than the historical high reached in 1995.

Large differentials between U.S. and German and between U.S. and Japanese interest rates were a key factor driving both the heavy flows into U.S. markets and the dollar's strength. A second factor was a diversification out of deutsche-mark- and yen-denominated instruments, in part reflecting a precautionary motive to avoid risks associated with market uncertainty about the likelihood, timing, and country composition of EMU and about the resolution of Japan's financial sector problems.

Private capital flows into U.S. markets in 1996—$425 billion—were counterbalanced by a substantial resurgence in U.S. investment abroad; hence, official net capital inflows almost matched the U.S. current account deficit. Increasing diversification of portfolios accounts for some of the two-way trade in financial assets. But the scale of such flows is also consistent with the view that the United States is playing the role of a global intermediary: attracting international capital by providing relatively safe, liquid instruments at relatively high returns and reinvesting them in less liquid vehicles for higher returns. The IMF study suggests that one reason the United States has assumed this role is that U.S.-based institutional investors and global financial institutions are generally perceived as possessing advanced knowledge, expertise, and global reach in placing funds in higher-yielding markets.

Relatively favorable fundamentals in the advanced economies supported a global compression of interest rate spreads across a broad range of credit markets. New bond issues in both domestic and international markets, for example, reached record levels in 1996–97. The narrowing of sovereign spreads—against benchmark yields—is consistent with the recent convergence of inflation rates, fiscal policies, and other fundamentals. The narrowing of spreads across different risk classes is broadly consistent with an increased tolerance for risk, reflecting a growing risk-seeking investor base and advances in risk management techniques.

As in the currency markets, however, unexpected events or policy changes could trigger a widening of spreads and a rebalancing of portfolios. Risk-adjusted spreads may have fallen below what is justified by the fundamentals. Cyclical factors increasingly suggest that monetary policy is likely to be tightened soon in some major economies; and a key question is whether markets have fully priced in the risks of further tightening of monetary policy and associated credit. Market risks are also associated with the transition to EMU, such as a potential increase in market volatility as investors rebalance their portfolios as decisions about the initial country composition and euro conversion rates are anticipated and made between now and January 1, 1999.

Equity markets in most advanced countries are currently at or near record highs. U.S. markets have continued to rise after doubling in value during 1992–96, fueled by the persistence of large inflows into U.S. equity mutual funds during the past few years. Some indicators suggest that U.S. equities are optimistically priced. According to the IMF study, however, there is a consensus that a moderate correction of U.S. equity prices would not affect the U.S. economy, given its present strength, the strong financial condition of U.S. banks, the development and widespread use of risk management systems, and recent improvements in the U.S. financial infrastructure.

EMU: Implications and Challenges

With the establishment of EMU, the euro will become the second most important official reserve currency in the world, and the European central bank (ECB) will take its place as the supranational institution that manages a "multi-state" currency. Despite formidable challenges, the euro has the potential to reshape European and international financial markets and to transform the international monetary system into a tripolar or even bipolar system, according to the IMF study.

Whether the euro will initially be a strong or weak currency will depend on the ability of EMU member countries to sustain fiscal consolidation and structural reform and on the credibility of the ECB. The EMU's success will also be influenced by the euro's ability to catalyze existing initiatives to enhance the efficiency and effectiveness of European capital markets. The opportunities EMU affords for beneficial structural changes are far ranging, including the development of EMU-wide securities markets, the consolidation and restructuring of European banking systems, and the creation of a pan-European payments system.

But the structural and institutional prerequisites for capturing these benefits are not all mandated by the Maastricht Treaty and may not evolve without the active participation of national and European Union authorities and the confidence of market participants. Remaining challenges that could affect outcomes include:

- elimination of existing impediments to banking system consolidation and restructuring;
- the impact of the European System of Central Banks (ESCB) operating procedures on the development of EMU-wide securities markets;
- access to the evolving European payments system; and
- the establishment of unambiguous mechanisms for credible systemic risk management.

The introduction of the euro could increase market volatility and cause shifts in patterns of international flows. Ultimately, however, the role of the euro in the international monetary system will turn on the future stability and strength of the euro vis-à-vis the dollar and the yen and will be defined by the shares of the euro in official and private portfolios, international transactions, and trade flows. Currently, Asian and U.S. investors appear to have shifted out of deutsche mark and into the dollar because of uncertainties surrounding EMU and the euro. But a gradual rebalancing of portfolios toward EMU could occur as both the euro and the credibility of the ECB become known and accepted, and as euro markets acquire liquidity and depth.

One of the most pressing challenges facing EMU, according to the IMF study, is the restructuring and consolidation of continental European banking systems. While a core group of internationally competitive European banks provides wholesale banking services, considerable scope remains for restructuring and consolidation at the local retail level, in part because many European financial systems are overbanked and a significant number of institutions overstaffed. By removing the home-currency advantage in local retail banking markets for deposits and loans, the euro will raise the level of cross-border competition and disintermediation. But unless structural reforms are implemented across European banking markets, local market power, rigidities in labor practices, or public ownership structures and other long-standing features could delay or prevent these pressures from having the desired effects.

Plans for the establishment of mechanisms for managing systemic banking and payments crises are still evolving. Banking supervision will remain national, with national supervisors responsible for functions normally delegated to a central authority. As EMU-wide markets evolve, the ECB may have to assume a greater independent supervisory capacity. This would help safeguard EMU financial markets from the consequences of incompatible incentives in the midst of a crisis. Although "constructive ambiguity" about the conditions under which lender-of-last-resort facilities will be available is a necessary element in preventing moral hazard (the Maastricht Treaty does not identify a lender of last resort), there should be no ambiguity among policymakers about the mechanisms that will be called upon to manage crisis situations.

Defending Against Speculation

Private capital flows to emerging markets during 1996 rose to a record $235 billion—a 22 percent increase over 1995. Flows continue to gravitate to Asian, Latin American, and certain transition economies.

The resurgence of flows to emerging market countries reflects the recognition by investors that the fundamentals in most of these countries have vastly improved. In the 1990s, several emerging market econ-

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omies have pursued a strategy of opening up to trade and capital transactions, fiscal consolidation, inflation stabilization, and extensive structural reforms. Moreover, these changes have taken place against the background of a stable macroeconomic environment in the mature markets.

Although markets will offer improved terms and conditions to those countries whose economic performance is viewed as strong, recent experience—such as the episodes involving the Thai baht and Czech koruna—shows that they can impose large costs on countries with perceived policy inconsistencies and structural weaknesses. The imposition of "market discipline" can occur by way of a sudden speculative attack on a country's exchange rate arrangements. Recent empirical studies reveal that some common characteristics make a country's currency vulnerable to attack:

- a highly overvalued real exchange rate;
- a weak financial system;
- an external debt position with a high proportion of short-term maturities; and
- limited international reserves.

In the current environment, country authorities need to ensure the resilience of the economy—and of the financial system in particular—to reversals in capital flows. Governments in many countries have increasingly relied on a graduated defense, beginning with sterilized foreign exchange intervention, and moving on, if necessary, to unsterilized intervention (that is, allowing short-term domestic interest rates to rise). Such a strategy can impose a significant burden if creditors cannot absorb the costs of higher interest rates. In situations where the cost of maintaining high short-term interest rates is considered excessive, temporary and selective capital controls have also been used to limit speculators' access to domestic credit. Exchange controls—restricting the ability of market participants to exchange foreign for domestic currency—could have costly and disruptive effects on trade and finance and on market confidence, and their introduction is not recommended.

Management of External Liabilities

Although greater access to international markets has been highly beneficial for emerging countries, it has left them open to the vicissitudes and volatility of global financial markets. Large and unhedged external sovereign liabilities could expose countries to risks that some are not fully prepared to manage adequately.

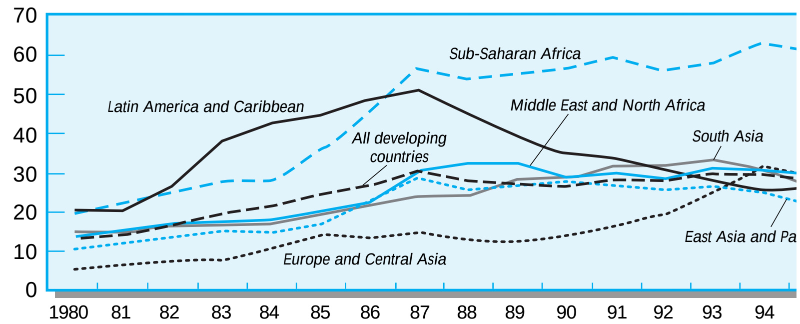
In the current environment, the sound management of sovereign liabilities has become an important element in safeguarding a country's economic stability. Governments should give reform of the institutional arrangements governing debt policy highest priority. The experience of some industrial countries as well as some emerging market countries in revamping their debt management practices suggests three guiding principles:

- Debt management should be shielded from political interference to ensure transparency and accountability.
- Debt management should be entrusted to portfolio managers with sophisticated knowledge and experience in risk-management techniques.
- Sufficient resources should be allocated to hiring high-quality staff and to acquiring sophisticated supporting systems.

Role of the IMF

What role should the IMF play in the new environment of increasingly integrated capital markets? There is a growing expectation that the IMF will use its own resources and act as a catalyst for regional official balance of payments support for systemically important emerging market countries. IMF surveillance over the financial positions of its members must therefore be strengthened to compensate for a potential lack of market discipline over sovereign borrowers and IMF financial support must be granted only in the context of rigorous adjustment programs. Global financial developments, the IMF study notes, often affect developments in the balance of payments and the liabilities of IMF members. Management of the various risks associated with the financial sector and with foreign liabilities are important areas where IMF surveillance needs to be—and has been—strengthened. ■

External Long-Term Public and Publicly Guaranteed Debt Outstanding
(percent of GNP)



Note: The groupings are as shown in the source.
Data: World Bank, Global Development Finance database.

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