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Contents

337 Camdessus on reform, poverty reduction

337 Emergency assistance for Turkey

Annual Meetings

340 Governors' statements

343 Seminar program

345 Per Jacobsson address

345 New on the web

346 *International Economic Policy Review*

347 Press release
Djibouti

347 Recent publications

348 IMF congratulates Mundell

348 IMF selected rates

348 Use of IMF credit

349 African debt seminar

351 IMF arrangements

Frankfurt address

Camdessus focuses on financial reform, stresses IMF role in reducing poverty

Following are edited extracts of an address by IMF Managing Director Michel Camdessus at the Konrad Adenauer Foundation in Frankfurt on October 11. The full text is available on the IMF's website (www.imf.org).

It is commonly admitted that it is in the area of financial relations that globalization has had the most pronounced impact on our lives. Financial markets have become integrated to a large extent, with undeniable benefits for the best-managed economies. Yet on two occasions, the more vulnerable economies were exposed to severe crises with dramatic consequences in financial and human terms.

These two occasions could be seen as the first two economic crises of the new millennium—the Mexican crisis of 1994–95 and the so-called Asian crisis, from which the world is just emerging. But every crisis has its silver lining, not least by bringing attention to bear on underlying vulnerabilities that the international community had not identified earlier.

Crises reveal vulnerabilities

What these crises have done is to lay bare many shortcomings of an international financial system designed at a time of public sector predominance. Now, with the explosive growth and increasing integration of capital markets during the past decade, it is the private sector that occupies a prominent, perhaps dominant, position on both sides of the ledger as creditor and as debtor. The range of players in the international markets has become far more diverse. And the domestic private sector—both banking and corporate—is typically a much more significant player. Now, *(Please turn to the following page)*

IMF approves emergency assistance in wake of Turkish earthquake

In a press release issued on October 13, the IMF announced that it had approved SDR 361.5 million (about $501 million) in emergency assistance for Turkey in support of the government's efforts to limit the adverse effects of the devastating earthquake that struck the country on the night of August 17. This amount is available immediately. The financial support from the IMF complements the generous response from the international community that will become available in the coming months. Following are excerpts of a statement by IMF Deputy Managing Director Shigemitsu Sugisaki following the Board discussion.

Photo not available

In Gölcük, Turkey, a heavy excavator begins removing the remains of collapsed buildings.

"Directors expressed their deepest sympathy for the people of Turkey following the devastating earthquake that hit the Marmara region, causing immense human suffering and extensive material damage. Directors considered that the drawing from the IMF will help complement the resources that Turkey needs to sustain the reconstruction and to meet the immediate financing needs associated with relief and reconstruction, while ensuring an adequate level of reserves.

"Directors commended the authorities for their skillful crisis management thus far, which had been well received by markets. While the attention of the authorities was naturally focused on the immediate need to ameliorate the impact of the earthquake, Directors were encouraged that the authorities' policy response had been cast within an overall policy framework oriented toward strengthening the public finances and reducing inflation. These actions attest to the authorities' continued commitment to adhere to the pursuit of sound macroeconomic and structural policies, despite the serious challenges they now face.

"Directors also welcomed the authorities' commitment to ensure that all *(Please turn to the box on the following page)*

Camdessus calls for focus on poverty

(Continued from front page) because the private sector is so important, new forms of tension have emerged. On the debtor side, national economic policies and institutions have revealed weaknesses in a number of areas: financial systems, public and corporate governance and transparency, and certain aspects of macroeconomic policies. But it must also be recognized that the crises have not been entirely of these countries' own making. Significant, too, were poor investment decisions by external creditors, based on inadequate risk assessment. On the official side also, deficiencies were found in monitoring and supervising capital markets and institutions engaged in international capital transactions. These shortcomings allowed risk exposure to accumulate to the extent that global financial stability was threatened.

In a nutshell, the crises of the last decade have suggested—in fact, have made imperative—three fundamental lessons:

- the golden rule of transparency;
- good governance as a universal "must" for both the private and the public sector; and
- the importance of the triangular relationship between monetary soundness, high-quality growth, and poverty reduction.

New monetary and financial architecture

The goal of the international community's work on reforming the architecture of the international monetary and financial system is to build a sounder international financial system that is conducive to free, but orderly, international capital movements, based on sound national systems and prudent, transparent macroeconomic policymaking. It would be a system that promotes transparency through internationally recognized standards and codes of good practice. It would also be a system that

- fosters financial sector soundness, based on strong regulatory and supervisory practices;
- seeks to develop a mature relationship between the private and public sectors such that each plays its full and responsible role, including in forestalling and resolving financial crisis;
- aims to develop open, integrated capital markets, with progress toward liberalizing capital movements being undertaken by individual countries in an orderly and well-sequenced fashion; and
- ensures that the international financial institutions and other agencies are adapted and strengthened to enable them to play their full part in an evolving world.

For the IMF, the issues are quite clear: the codes for which we have direct or shared responsibility—data dissemination, transparency in fiscal policies, transparency in monetary and financial policies, and banking supervision—are operational.

Progress has been slower in some other areas in which full consensus has yet to emerge. First, involving the private sector in crisis prevention and resolution raises a number of difficult issues. There is an understandable desire to derive rules that would offer a uniform approach to involving the private sector when crisis strikes. But

Emergency assistance for Turkey

(Continued from front page) relief expenditure programs will be well targeted and managed in a fully transparent and accountable way."

Background

The Marmara earthquake has been one of the most severe in the last 20 years, claiming the lives of 15,600 people, injuring more than 25,000, and leaving about 500,000 homeless. Shops and other microenterprises took the brunt of the damage to businesses, and, although production in most large enterprises was interrupted, permanent damage to industrial capacity was modest.

Although estimates of the economic effects of the earthquake remain tentative, preliminary assessments by the World Bank put the loss of physical capital in the range of $3 billion to $6.5 billion. The impact on output is significant, as the earthquake struck the economic heartland of the country, which contributed about 7 percent to the country's GDP. The output loss in 1999 related to the earthquake could be in the order of 0.5–0.75 percent. In 2000, however, economic growth is likely to exceed expectations by 1–1.25 percent as a result of higher demand stemming from reconstruction efforts.

The authorities remain committed to achieving the fiscal targets set for the second half of this year under the current staff-monitored program, which began in mid-1998. They have expressed their intention to pursue in 2000 and beyond policies that would lead to rapid disinflation and that could be supported by a Stand-By Arrangement from the IMF.

Turkey joined the IMF on March 11, 1947, and its quota is SDR 964 million (about $1.3 billion). Its outstanding us of IMF financing currently totals SDR 103 million (about $143 million.

Press Release No. 99/49, October 13

Turkey: main economic indicators

	1995	1996	1997	1998	1999 Projection[1]
	(percent change)				
Real GNP	–6.1	7.9	8.2	3.8	–1.5
Wholesale price index (year on year)	88.5	77.9	81.8	71.8	53.0
Consolidated budget balance	–3.8	–8.5	–7.5	–7.7	–11.8
Public sector borrowing requirement	5.6	10.7	10.4	10.7	15.9
Current account balance (including shuttle trade)	–0.5	–1.3	–1.4	0.9	–0.8

[1]Revised projections of the staff-monitored program targets taking into account preliminary estimates of the impact of the August 17 earthquake.

Data: IMF staff estimates

experience is showing how widely circumstances can differ and how tricky and possibly illusory it would be to try to find a "one-size-fits-all" approach. Nevertheless, while this debate has been under way, a number of actual country cases are providing us with a body of "case law." These experiences will help as the international community proceeds to distill a set of principles that will help resolve crises at less cost than in the past.

Second, what is the optimal rate of proceeding with liberalizing capital movements, and what should be the role of direct exchange controls? In the coming months, the IMF will be considering proposals for a gradual, country-specific approach that explicitly recognizes the great variety of country situations. Once consensus is reached, it will be possible to resume the momentum that was established at the 1997 IMF Annual Meetings in Hong Kong SAR.

Third, we come to the core of the IMF's mandate—the question of exchange rate regimes. We have become well aware that deficiencies in exchange systems or exchange rate management can trigger or amplify crises. The debate on the choice of regimes is still wide ranging. It is clear that, for the time being, the diversity of exchange rate regimes will continue, although it is increasingly accepted that today's greater mobility of capital makes the maintenance of fixed rates more demanding on domestic economic policies. In the end, whichever arrangement a country adopts, sound economic fundamentals are essential.

Poverty, social policy, and macroeconomics

The systemic risks entailed by widespread poverty around the world need no elaboration but certainly call for urgent and decisive action. The renewed emphasis given to this issue in IMF-supported programs and surveillance is an initiative that remains very close to our core mandate and basic experience. From its experience as a monetary institution—with the emphasis on macroeconomic problems and related structural reforms—the IMF has learned much about the connection between sound monetary and economic policies, high-quality growth, and poverty reduction. It is now solidly demonstrated that price stability and low fiscal deficits promote economic growth. Economic growth, in turn, is a sine qua non and the most significant single factor that contributes to poverty reduction.

Sound monetary and macroeconomic policies can promote poverty reduction. But now it is also much better understood and acknowledged that the effect also runs in the other direction. For the discipline of a strong monetary policy to be maintained long enough to eradicate inflation and contribute to sustainable growth, it must be implemented in a context in which integral parts of government policies include the fight against poverty, the adoption of appropriate social safety nets, and a recognized effort to reduce severe inequalities in income distribution over time. By giving legitimacy and fostering broad-based support for sustained reform, these social policies can contribute decisively to creating the political environment in which sound monetary policy can and must develop its beneficial efforts.

On the eve of the millennium, the international community has taken a significant step to alleviate the debt burden of the most heavily indebted poor countries (HIPCs) by a substantial enhancement of the initiative for the HIPCs. Our goal is to help countries—as they undertake reform, as they stabilize their economies, and as they receive international assistance, including highly concessional debt relief—to channel the benefits to where they are most desperately needed, reducing poverty.

What role does the IMF have in all this? The interrelationship between growth and social development has been too loosely defined so far in our activities, even though for many years IMF-supported programs have explicitly incorporated social considerations. It was time to go one major step forward. So, we also have a major agenda for implementation.

Already we have taken steps in this direction by transforming our concessional Enhanced Structural Adjustment Facility into the Poverty Reduction and Growth Facility, in parallel with new steps for debt reduction, an explicit link with poverty reduction, and a new level of cooperation with the World Bank. This link with the World Bank will be essential, for it is the Bank, not the IMF, that has the expertise to help countries develop their social services. The Poverty Reduction Strategies that will be a central feature of our new facility will allow coordinated input from international agencies—the World Bank, the United Nations, and other donors—and civil society in the interested countries to assist governments in implementing the broad social objectives, while allowing the IMF to stay in the domains of its comparative advantage.

Should this emphasis on poverty and social policy enter more generally into the IMF's other, nonconcessional lending operations or more generally into our policy dialogue with member countries in the context of surveillance? The debate is still open on this issue. But let me make two simple observations. Every country confronts poverty to at least some extent. In the poorest countries, we may find that poverty can have macroeconomic consequences as it undermines social cohesion and saps the population's ability to participate in productive activity. At the other extreme, notably in industrial countries, social protection systems can, without periodic policy changes, lead to a sclerosis of the economy, reducing incentives and limiting potential output. It is in such areas, where macroeconomic policies intersect with social goals, that the IMF has a legitimate basis and a responsibility to engage in a dialogue with the authorities in the pursuit of its primary purposes. ■

Annual Meetings statements

Governors welcome signs of financial recovery, caution that results must be consolidated

The global economy is showing signs of recovering from the financial crises of the previous two years, according to the governors representing the IMF's 182 member countries. Speaking during the plenary sessions of the 1999 Annual Meetings of the IMF and the World Bank, held on September 28–30 in Washington, D.C. most governors nonetheless cautioned that great care would be necessary to nurture the recovery, which they considered fragile. A second key message to emerge from the governors' addresses was one of unanimous support for the enhanced Heavily Indebted Poor Countries (HIPC) Initiative and approval of the strengthened link between poverty reduction and debt relief.

The governors' addresses ranged over a number of other issues on which the two institutions and their members had focused during the past year, including strengthening the international monetary and financial systems, liberalization of capital movements, international trade issues, exchange rate regimes, and collaboration between the IMF and the World Bank.

Sustaining the economic recovery

Speaking on behalf of the Nordic and Baltic countries, Svein Ingvar Gjedrem, Governor of Norges Bank, said that international financial markets had come closer to a state of normality during the past year and that the economic outlook appeared brighter in several regions. He noted, however, that these encouraging developments did not leave room for complacency. Chinese Finance Minister Xiang Huaicheng agreed, observing that "the global economic environment, though improved, has not stabilized completely." He said that governments around the world faced the challenging task of further consolidating the recovery and stabilizing the world economy. He stressed that the developing countries would need to continue their economic restructuring and urged industrial countries to increase resource transfers to, and imports from, developing countries. For its part, he said, the Chinese government has contributed to the recovery of the Asian economy by adopting a responsible policy stance and keeping the Chinese currency stable.

Svein Ingvar Gjedrem

Many governors outlined the risks they saw facing the international community, including incipient short-term pressures on consumer prices related to the higher oil prices of the past months and a possible slowdown in the U.S. economy. Speaking on behalf of the Arab governors, Mahfoudh Ould Mohamed Ali, Governor of the Central Bank of Mauritania, expressed hope that Europe and Japan could increase their growth rates enough to compensate for any slowdown in the U.S. economy. In this context, Ram Binod Bhattarai, Finance Secretary for Nepal, exhorted industrial countries and international financial institutions to pay greater attention to creating an "enabling environment" that would provide for the interests of the poorest and least developed countries. Yashwant Sinha, India's Minister of Finance, expressed a similar view. He said there was a risk that such efforts might not go far enough, "especially if the longstanding concerns of the developing countries do not get due attention." Among those concerns, he listed declining levels of aid, stagnation of other official flows, insufficient international liquidity at times of financial stress, low prices for primary products, and the limited access of most developing countries to private capital flows. He concluded by suggesting that a central issue of the next millennium would be the equitable distribution of the enormous benefits of the new technological revolution.

Mahfoudh Ould Mohamed Ali

Tackling poverty

Governors generally welcomed proposals to enhance the framework of the HIPC Initiative to strengthen the link between debt reduction and poverty alleviation, but many expressed concerns, including about financing. Wolfgang Ruttenstorfer, Austria's Secretary of State, said that some details—including the principle of burden sharing, the overall financial requirements, and a plan to meet these requirements—had not been settled and could damage the credibility of the effort. James Peterson, Canada's Secretary of State, expressed another concern—that expanding the HIPC Initiative would, by itself, not do enough to meet the challenge of reducing poverty. He stressed that the initiative should be only one element in a much broader attack on global poverty. Experience has shown, he said, that to be effective, development assistance must be directed to countries whose governments pursue good policies

and that are committed to developing and maintaining strong institutions. Many governors also underscored the need to promote the ownership of the program countries, tailoring assistance to each recipient country's specific circumstances. More important, said Shah A.M.S. Kibria, Minister of Finance of Bangladesh, "all recipient countries must have a greater role in designing their own reform programs."

With respect to financing the enhanced HIPC Initiative, many governors supported the IMF's plan to sell a portion of its gold through off-market transactions. Victor Joy Way, Peru's Prime Minister and Minister of Economy and Finance, praised the IMF's efforts to find a creative solution that would take account of the interests of gold-producing developing countries as well as the need to secure adequate resources to fund the IMF's part of the enhanced HIPC Initiative. Sonakul Chatu Mongol, Governor of Thailand's central bank, said that Thailand supported the off-market gold sale. However, Thailand also shared the concerns of other developing countries that financing the enhanced HIPC framework would impose a burden on the multilateral development banks. He therefore urged the major industrial countries to make bilateral contributions in line with the principle of fair burden sharing.

Strengthening monetary and financial systems

Most governors recognized that much had been achieved in the past few months in terms of strengthening the international financial architecture and praised the IMF for its initiatives. They commended, in particular, the creation of the Contingent Credit Lines, the external evaluations of IMF surveillance and research activities, and the effort to develop and publish internationally accepted regulations and standards. They agreed that the private sector should be involved in forestalling and resolving financial crises, which would help reduce moral hazard problems, but held different views about how this objective should be accomplished. Gerrit Zalm, Minister of Finance of the Netherlands, argued that the IMF's approach to promoting private sector involvement carried a number of risks. For example, he said, "considering every case on an ad hoc basis might lead to unequal treatment of countries as well as of creditors." He acknowledged that every crisis situation had its own specific characteristics, but saw a need—in the name of equal treatment—for establishing general principles and instruments for involving the private sector in international financial crises. While understanding the desire to work out a set of rules on this issue, Viktor Khristenko, Russia's First Deputy Prime Minister, emphasized the importance of not giving the private sector "the wrong idea that some specific decision taken with regard to one country or another will henceforth necessarily become a rule." A few other governors agreed with the need for flexibility, which would allow commonsense solutions to prevail.

Masaru Hayami, Governor of the Bank of Japan, cautioned that the risk of crisis could not be avoided completely. He therefore underscored the need to consider preventive measures and to be prepared to implement them swiftly if a crisis were to erupt. "We must remember," he said, "that no single reform measure can act as a panacea for reinforcing the international monetary system." He argued that all parties should be required to implement reforms: emerging market economies, which are exposed to the risk of currency crises; private investors who are investing in these countries; developed countries, which are responsible for instituting prudential regulations covering their investors; and the IMF and other international financial institutions.

Masaru Hayami

Liberalization of capital movements

Governors' views about the desirability of capital account liberalization fell into two camps. On the one hand, most governors recognized the role of financial sector liberalization in spurring economic growth and development, but agreed that the process should be cautious and orderly. Tantely R.G. Andrianarivo, Prime Minister and Minister of Finance and Economy of Madagascar, speaking on behalf of the African governors, stressed that capital account liberalization should be accomplished "within a sound macroeconomic framework and go hand in hand with the development and strengthening of our financial systems." Governor Gjedrem of Norges Bank supported giving the IMF "appropriate jurisdiction over the liberalization process."

On the other hand, Dato' Mohamed Mustapa, Malaysia's Minister of Finance, noted that in the face of severe criticism, his country adopted selective exchange controls in September 1998. He stressed that small countries can be "completely overwhelmed" by a liberalized capital account framework and should be allowed to liberalize at a pace commensurate with their state of development. He suggested it was premature to give the IMF jurisdiction over the capital account. Russia's Khristenko took the position that the term "orderly liberalization of capital movements" assumed the sensible use of restrictions and their gradual relaxation in line with the pace of economic reforms. He said Russia was not opposed to amending the IMF's Articles of Agreement, but said that capital account lib-

Dato' Mohamed Mustapa

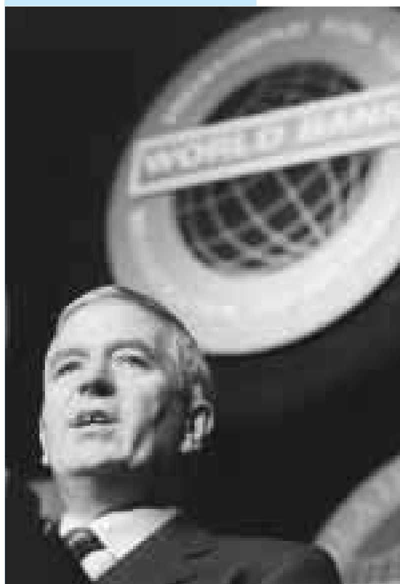
eralization should not become a condition for access to IMF resources.

International trade issues

One way to help countries become more integrated with the world economy, suggested Portugal's Minister of Finance Antonio de Sousa Franco, is through participation in international trade. Banque de France Governor Jean-Claude Trichet observed that regional integration was also necessary because it was a source of political stability, convergence, and peer pressure between governments. Integration gives regional economies critical mass in the global economy, Trichet said, and would facilitate global integration. Against the background of a new round of negotiations under the World Trade Organization, a number of governors noted that priority should be given to ensuring that developing countries have continued access for their main export commodities to the markets of the European Union and other industrial countries.

Mohamed A. Beit Elmal

Mohamed A. Beit Elmal, Secretary of the General People's Committee for Finance of Libya, expressed concern that the promotion of globalization as the freedom of movement of goods, services, labor, capital, and information would enable a few countries and corporations to monopolize international trade in goods and services. He maintained that, without regulatory arrangements and controls, developing countries would be unable to compete with industrial countries and would be transformed into consumer markets for the products of the industrial countries.



Charlie McCreevy

Exchange rate regimes

A number of governors raised the issue of exchange rate regimes in their statements. They recognized—given increasing globalization and the role of exchange rate systems and policies in the recent financial crises—the importance of exchange rate stability for robust economic development. Several governors, including Norway's Gjedrem and Peru's Joy Way, noted that the choice of exchange rate regime depended on the economic circumstances facing the individual country. Joy Way said that the experiences of the countries in his constituency demonstrated that the most important factor was the fit between the country's economic policies and the exchange system it had chosen.

Giuliano Amato, Italy's Minister of the Treasury, Budget, and Economic Planning, expressed the view that the IMF should help countries devise the most appropriate exchange rate regime and supporting policies, and Japan's Hayami said that "the IMF should provide appropriate advice on this matter through the programs it supports and its surveillance activities."

Bank-IMF collaboration

On the issue of collaboration between the World Bank and the IMF, many governors welcomed the increase in day-to-day cooperation between the two institutions, which, in the words of Levon V. Barkhoudarian, Armenia's Minister of Finance, "can bring major benefits to the economic prosperity of the countries involved." Other governors agreed that cooperation was not only desirable but also vital. Irish Minister for Finance Charlie McCreevy suggested that the two institutions should intensify the cooperation between themselves; with other agencies in the economic, social, and political arena; with member governments; and with a wide range of civil society, particularly in program countries. While acknowledging the value of close collaboration between the IMF and the World Bank, several governors nonetheless noted that the two institutions had different mandates and felt that action would be necessary to ensure that the core responsibilities of each were not blurred.

Governors also devoted some attention to the debate on the future of the Bretton Woods institutions. Austrian Secretary of State Ruttenstorfer declared it would be regrettable if such a debate were to lead "to the weakening or loss of a credible and efficient international framework of cooperation in financial and development matters." With respect to the IMF, most governors welcomed the transformation of the Interim Committee into the International Financial and Monetary Committee, which they thought would reinforce the IMF's governance, improve its functioning, and make it more effective.

Finally, many governors spoke of recent natural disasters and political conflicts, including events in East Timor, the Kosovo crisis, and the earthquake in Turkey. They expressed concern about the enormous challenges these events presented, paid tribute to the international community for assistance and cooperation in dealing with them, and appealed for humanitarian aid in ongoing crises. ■

Elisa Diehl
Assistant Editor, *IMF Survey*

Photo Credits: Sergei Chirikov for AFP, page 337; Denio Zara, Padraic Hughes, and Pedro Marquez for the IMF, pages 340–344, and 346; Reuters, page 348; Embassy of Botswana, page 349; and Simon Maina for AFP, page 352.

IMF SURVEY

Private sector participants discuss major issues with government and international officials

A wide range of issues important to the international economy and to individual countries were discussed during the joint seminar program held in conjunction with the Annual Meetings. Cosponsored by the IMF and the World Bank, the seminars provided a forum for important figures from the private sector to discuss these issues with senior government officials and representatives of the international financial institutions.

Outlook for capital flows

The program opened on September 25 with a seminar on the prospects for international capital flows in the aftermath of the Asian crisis. The first speaker, Andrew Crockett, General Manager of the Bank for International Settlements, emphasized that free and open markets were essential to the reform of the international monetary and financial system. Large capital flows had produced widespread instabilities, and it was now essential to strengthen banking systems and supervision. It was equally important to improve the composition of flows, he said. Direct investment should take over the burden of long-term investment, with banking flows being restricted to providing backup financing.

IMF First Deputy Managing Director Stanley Fischer said the participation of the private sector in providing crisis lending could take two forms: ex ante, the private sector could provide private contingent credit lines, while ex post, the private sector had to be involved when the financing needs were so great that the official sector proved inadequate. He discussed the situation of Ecuador, which needed to implement a serious adjustment program and act to solve its financing problems through discussions with its creditors and through adopting sound domestic policies.

Arminio Fraga Neto, the Governor of the Central Bank of Brazil, traced the successful policies his country had followed since the crisis. He said that crisis in financial markets was a fact of life, with the common fault lying in short-term capital flows. It was crucial for countries to have clearly sustainable fiscal policies, he said, adding that managed exchange rates were an invitation for complacency and myopia.

Exchange rate systems

In a seminar on exchange rate systems for emerging markets, Michael Mussa, Economic Counsellor and Director of the IMF's Research Department, stated two principles: the exchange regime is intrinsically linked to other aspects of a country's economic strategy (especially monetary policy); and the best choice of a regime for a country must be evaluated on the basis of its longer-term performance. He noted that owing to their different circumstances, developing countries followed a wide variety of regimes. Pegged regimes, he said, are appropriate for very small economies, economies aspiring to join a currency union, or countries stabilizing from hyperinflation, although an exit strategy is always needed because pegs are not viable over the long run.

Jeffrey Frankel of Harvard University argued that no single exchange rate regime is right for all cases and that each regime—fixed, floating, or intermediate—may be right for some countries at some times. He considered that the case for dollarization or currency boards was stronger in light of recent experiences, since emerging market economies had found that independent monetary policy had not, in practice, been a useful instrument.

Andrew Crockett (left) and Stanley Fischer

Capital controls

The case for Malaysia's use of capital controls was put by Zeti Akhtar Aziz, Deputy Governor of Bank Negara, during a seminar on this topic. She argued that Malaysia was justified in imposing controls, in that it had no balance of payments problem, strong reserves, and low indebtedness. The stability attained through controls had, she said, allowed the country to put in place growth-oriented policies and financial restructuring, which had enabled it to raise growth rates and increase its reserve holdings.

Dani Rodrik of Harvard University observed that capital controls can be a useful complement to banking and regulatory standards and supervision. Because little is known about how to proceed to capital account liberalization, he said, it was appropriate to maintain an open mind.

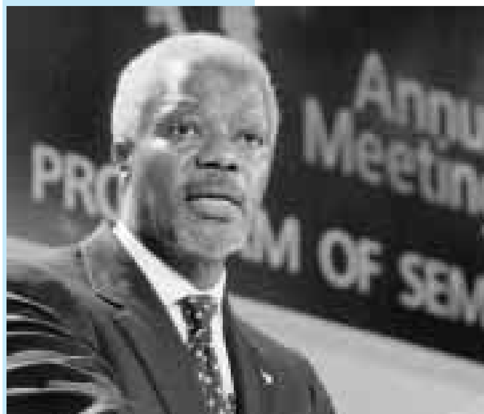
While capital controls may be useful in certain circumstances, they should be temporary and should not be seen as a substitute for the right fundamental policy actions, according to R. Barry Johnston, chief of the IMF Monetary and Exchange Policy Division. Controls will not be effective unless they are part of a broad and sound policy package.

Arminio Fraga Neto

Monitoring financial systems

A broad consensus emerged on the need to enhance the monitoring and assessment of financial and banking systems. In a seminar devoted to this topic, Fraga Neto

stressed that Brazil had learned the value of a robust financial system and had moved toward a more flexible approach that was oriented toward detecting potential problems earlier and addressing them promptly. He said that the central bank's supervisory efforts were building a foundation for monitoring based on signals and inferences drawn from the market system.



Kofi Annan

Financial stability enables financial markets to avoid systemic disruptions, according to Stefan Ingves, Director of the IMF's Monetary and Exchange Affairs Department. Financial stability did not imply that individual institutions were not allowed to fail. If an institution were to fail, the resolution had to be prompt and orderly. Bringing about change was essentially a slow process, for which the IMF's Code of Good Practices on Transparency in Monetary and Financial Policies could provide a set of guidelines.

Country policies

Korean Finance Minister Kang Bong-Kyun discussed his country's recovery from crisis and described its progress in banking and corporate restructuring, labor rights, and market opening and liberalization. Further reforms in the institutional area and in developing transparency are still required, he said. He paid tribute to the crucial role that the IMF and the World Bank had played in the Korean recovery.

Wole Soyinka

Vice President Atiku Abubaker of Nigeria made a strong appeal for the international community to reduce his country's stock of debt so it might devote its limited resources to reducing poverty. Joseph Oladele Sanusi, Governor of the Bank of Nigeria, said that the government had now accepted the need for financial discipline. The more stable macroeconomic environment, he said, had made it easier for Nigeria to work with the international financial institutions.

In a discussion of decentralization and reform in Argentina, Interior Minister Carlos Corach said reform process had made his country more competitive. He considered that the only way to give fresh momentum to the reforms would be to allocate a large role to provinces and municipalities in a federal approach. This approach was supported by Pablo Verani, Governor of Rio Negro Province, who noted that decentralization enabled the economy to compete more effectively in the market.

Alan Greenspan

Trade reform

A number of speakers addressed the benefits of trade reform for developing countries. Sylvia Saborio of the Overseas Development Council said that the most important issue in the new round of trade negotiations would be increased access for developing countries to goods and services. There should be a greater understanding of the constraints that developing countries face in implementing trade reform, she said, and differential treatment was needed to ensure fairness.

Developing countries stand to benefit the most from trade liberalization, said Clyde Prestowitz of the Economic Policy Institute. He did not agree that this group of countries should benefit from differential treatment. John Page, Director of Economic Policy at the World Bank, said that for the new round to be fair, developing countries should consider they had a legitimate seat at the table. The biggest issues in the upcoming trade round, he said, were agriculture and hidden protectionism.

Keynote speeches

In addition to the seminars, the program featured a number of keynote speakers. Kofi Annan, Secretary General of the United Nations, stressed the urgent need for the world economy to generate some two billion jobs, at productivity levels sufficient to keep working families out of poverty. He called on developing countries to reorient their economies toward job creation, particularly in the agricultural sector, and for developed countries to support this effort through such measures as restructuring debt and reforming the international financial system.

The Norwegian Development Minister, Hilde Johnson, saw governments' narrow scope for action as one of the main impediments to development and called for a refashioning of the way donors and recipients relate to each other. To produce maximum results, she said, development aid must be well coordinated with the recipient countries' own resources. She added that the best way to do this was to channel it through national budgets at the receiving end.

In his address, Wole Soyinka, the Nigerian poet and Nobel laureate, called for a more human approach to development that would focus less on GNP and more on nurturing skills within a supportive environment. Drawing on the Nigerian experience, he emphasized the importance of cultural renewal in an environment of good governance and respect for human rights.

The lessons of the global crisis were reviewed by Alan Greenspan, Chair of the U.S. Federal Reserve Board. He suggested that one reason why normal adjustment processes did not work in the Asian crisis, and the downturns were worse than might have been foreseen, was because the banking system was dominant in financial intermediation, without well-developed capital markets as a backup. What were needed, he said, were improved accounting standards, effective bankruptcy procedures, and meaningful corporate governance. Along with steps toward a sound banking system, he concluded, the fostering of well-developed capital markets was also important. ■

Duisenberg warns against risk of complacency in path toward European integration

On September 26 in Washington, D.C., Dr. Willem F. Duisenberg, President of the European Central Bank (ECB), delivered the 1999 Per Jacobsson address, "The Past and Future of European Integration: A Central Banker's Perspective." His remarks are summarized here; the full text is available on the IMF's website (www.imf.org).

The original purpose of integration—to avoid a recurrence of the wars that had so plagued Europe earlier this century—remains as valid today as it was fifty years ago, Duisenberg said. To date, this process has largely been successful, but complacency remains a concern. Analyzing Europe's experience, he indicated that the sometimes bumpy path to integration has often been related to business cycles and major shocks, that the process has now reached a point of no return, that the political component of integration is still essential, and that politicians should shoulder the responsibility of clarifying the objectives of the integration process.

It is, and will remain, the central banker's role to advise participants of the economic consequences and risks of specific integration steps and to stipulate under which conditions these steps can be safely taken. The ECB's role may often be viewed as stepping on the brakes, but this, he suggested, may be the most constructive contribution central bankers can make to the integration process.

In a task of this magnitude, Duisenberg emphasized, there are bound to be challenges as well as opportunities. He grouped the challenges facing Europe into three broad categories: making the euro and the Economic and Monetary Union (EMU) a success; coping with the accession of new members; and developing the role of Europe, the ECB, and the Eurosystem in the world.

Toward a successful euro and EMU

From the perspective of a central banker, the most important task for the Eurosystem is to build a track record of actual price stability. Here, Duisenberg said, "actions speak louder than words." Europe's citizens should have confidence in their currency and in their central bank, he insisted, and the "ECB should be perceived as an institution that says what it does and does what it says."

The ECB and the Eurosystem, he added, should develop into truly European institutions that make their decisions and conduct their analyses from a euro-area-wide perspective. Duisenberg stressed that the ECB's mandate of maintaining price stability has to be emphasized continuously, and the medium-term perspective of this task has to be underscored. The effectiveness of this mandate over time will depend upon a continued appreciation of the benefits of price stability and enduring broad support for the policy.

Structural problems, notably unemployment, will require structural reforms, and these reforms, Duisenberg warned, will be politically difficult. He expressed concern that monetary policy might be made the scapegoat for a failure to take action elsewhere, but he was convinced that only more flexible markets would allow a monetary union to cope with asymmetric shocks. It would also be critical, he noted, to reduce government deficits or create a surplus over the medium term to provide room for automatic stabilizers to work and to begin to address issues related to the aging of Europe's population.

In addition to conducting monetary policy, the ECB will have other important tasks—notably, maintaining financial stability. Currently, banking supervision remains a national responsibility, but the Treaty on European Union permits the ECB's responsibilities to be enhanced in this area. The ECB will also have important duties in connection with the introduction of euro banknotes and coins.

Ensuring price stability will always be the bottom line, however, and to achieve this, the ECB will need to exercise judgment. Duisenberg emphasized that the ECB placed great value on being open, transparent, and—to the extent possible—predictable. This approach, he believed, would make the ECB more effective, more accountable, and better able to use its

Available on the web (www.imf.org)

News Briefs

99/69: IMF Completes Review and Approves $29 Million Credit Tranche for Armenia, October 8

99/71: Camdessus Congratulates New Indonesian President on Election, October 20

Public Information Notices (PINs)

99/94: Guinea-Bissau, October 8

99/95: Finland, October 18

Letters of Intent and Memorandums of Economic and Financial Policies

Nicaragua, August 19
Bulgaria, August 20
Jordan, August 28
Armenia, September 15
Thailand, September 21
Turkey, September 29
Armenia, October 6

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

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

external communication framework to lend structure and discipline to its internal debates.

An important starting point for the ECB's open communication is the collegial nature of its Governing Council. Decisions are made from a euro-area-wide perspective and are announced as a body. Duisenberg regretted that debate over communications thus far had focused on the Governing Council's decision not to publish minutes of its meetings. He said his introductory statements, at press conferences after these meetings of the Governing Council, were in substance no different from what other central banks termed minutes. He also defended the ECB's decision not to publish voting records—because this reinforced the ECB's commitment to making its decisions on an area-wide basis—and its decision, for the time being, not to publish economic or inflation forecasts—because of the fear that inflation forecasts might become self-fulfilling.

Duisenberg: A successful Europe will improve the lives of its citizens and add to world stability.

"Monetary policy cannot be conducted in isolation," Duisenberg said, noting that the ECB needs a strong European foundation and a realization, among all participants, that "ultimately we are sitting in the same boat." A sense of belonging together—what he termed social cohesion—cannot, and should not, be imposed, but it can, he argued, "to a certain extent, be guided." That process, however, must be evolutionary and spontaneous.

Coping with accession

Six countries are currently negotiating to join the European Union—and ultimately the euro area—and negotiations with six more countries may soon begin. Accession is a political decision, Duisenberg remarked, but the entry of new members will have consequences for the ECB and the Eurosystem. He counseled that the Eurosystem must take an "open and positive attitude" toward new member states and subsequent participation in ERM (exchange rate mechanism) II and adoption of the euro. The Eurosystem, he added, should provide advice and technical assistance on the appropriate structural reforms and stability-oriented policies that prospective members need to meet accession and convergence criteria.

Equal treatment should also be a key feature of the accession process: accession criteria should be objective and uniform, and implemented in a strict and effective manner. But given the different starting points and degrees of economic transition in the countries seeking membership, the Eurosystem should be able to accept a variety of approaches, Duisenberg said, without compromising equality of treatment. This may be the case particularly with regard to the timing for European Union (EU) accession, ERM II membership, and monetary policies before EU accession.

Role in world economy

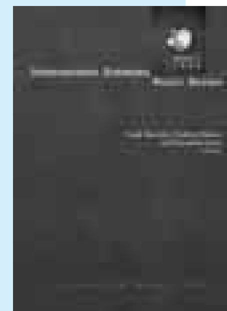
The future of the euro—now the second most widely used currency in the world—will be determined by market forces, Duisenberg emphasized. "There is and shall be no policy of challenging the position of the dollar nor that of any other currency." He did note, however, that success in maintaining price stability will almost automatically foster the euro's international role.

The Eurosystem's monetary policy strategy rules out implicit or explicit targets or target zones against third currencies, but it is not indifferent, Duisenberg explained, to exchange rate developments. The effective exchange rate of the euro is monitored as a potentially important indicator of monetary policy. More broadly, Europe should aim to become a stronger partner in international cooperation and, as far as possible, speak with one voice and resist the temptation to adopt an exclusively introspective stance.

Ultimately, Europe must face all of these challenges simultaneously, Duisenberg observed, but it can do so effectively if it is clear about its objectives and flexible in achieving them. Substantial efforts and the will of many persons and institutions will be required, but a successful Europe, he concluded, will improve the lives of its citizens and add to world stability. ■

New series of IMF policy papers

The IMF has recently published the first volume of a new series, the *International Economic Policy Review*, which makes available to the general public a selection of policy papers prepared by IMF staff. Edited by Paul Masson of the Research Department, Padma Gotur of the Secretary's Department, and Timothy Lane of the Policy Development and Review Department, the *International Economic Policy Review* is aimed at economic policy practitioners and will offer specific policy-relevant analysis on a relatively nontechnical level. These papers are intended to provide analytical background for IMF-supported programs and, more generally, to shed light on a range of policy choices facing ministries and central banks.



The first volume contains a selection from a series of discussion papers (*Papers on Policy Analysis and Assessment*) issued from 1992 through the end of 1998, when they were renamed *Policy Discussion Papers* (PDPs).

Annual editions of the *International Economic Policy Review* are planned. Each will include a selection from the PDPs appearing in the previous year.

Copies of the *International Economic Policy Review*, Volume I, 1999, are available for $22.00 each from IMF Publication Services. See page 347 for ordering information.

Press release

Following is an extract of a recent IMF press release. The full text is available on the IMF's website (www.imf.org) under "news" or on request from the IMF's Public Affairs Division (fax: (202)623-6278).

Djibouti: ESAF

The IMF approved a three-year loan for Djibouti under the Enhanced Structural Adjustment Facility (ESAF) in an amount equivalent to SDR 19.1 million (about $26.5 million) to support the government's three-year economic reform program beginning July 1999. The first annual loan will be disbursed in three installments. The first installment, in an amount equivalent to SDR 2.7 million (about $3.8 million), will be available shortly. Following are excerpts of a statement by IMF Deputy Managing Director Shigemitsu Sugisaki on the Executive Board discussion.

"Directors welcomed the decision by Djibouti's authorities' to pursue a comprehensive medium-term adjustment program under the ESAF arrangement, aimed at strengthening macroeconomic policies and deepening structural reforms, in order to accelerate growth, raise employment levels, reduce poverty, and strengthen the external position.

"Directors commended the authorities' intentions to continue a tight fiscal policy stance while still increasing outlays for social programs and infrastructure investment. In particular, noting the importance of poverty

Djibouti: selected economic and social indicators

	1995	1996	1997	1998[1]	Jan–June[1] 1999	1999	2000	2001	2002
						ESAF Program			
	(annual percent changes)								
GDP at constant prices	–3.6	–1.5	0.0	1.7	...	1.4	2.3	3.2	4.3
Consumer prices (annual average)[2]	4.5	2.6	1.6	0.1	0.0	2.0	2.0	2.0	2.0
	(percent of GDP)								
Overall government balance (cash basis)	–4.9	–4.6	–1.9	0.1	–1.2	–1.6	–3.8	–3.9	–3.3
Current account	–3.5	–3.3	–2.3	–2.8	0.0	–6.2	–6.5	–6.1	–5.4
Overall balance	–2.0	–6.9	–2.4	–2.2	0.0	–2.8	–2.6	–2.4	–1.8

[1]Provisional.
[2]Staff estimates for 1995–March 1999; based on official consumer price index from April 1999.

Data: Djibouti authorities, IMF staff estimates, and World Bank social and demographic data

Recent publications

Working Papers ($7.00)

99/105: *Measuring Financial Development in Sub-Saharan Africa*, Enrique A. Gelbhard and Sérgio Pereira Leite
99/106: *Bank Bailouts: Moral Hazard vs. Value Effect*, Tito Cordella and Eduardo Levy Yeyati
99/107: *Analysis of the U.S. Business Cycle with a Vector-Markov-Switching Model*, Zennon G. Kontolemis
99/108: *Bailout and Conglomeration*, Se-Jik Kim
99/109: *Deconstructing Job Creation*, Pietro Garibaldi and Paolo Mauro
99/110: *Foreign Exchange Queues, Informal Traders, and a Zero Premium in the Black Market: A Cape Verdean Puzzle*, Jan-Peter Olters
99/111: *Firm Investment and Balance-Sheet Problems in Japan*, Toshitaka Sekine
99/112: *Private Sector Consumption Behavior and Non-Keynesian Effects on Fiscal Policy*, Rina Bhattacharya
99/113: *Bank Fragility and International Capital Mobility*, Enrica Detragaiche
99/114: *Exchange Market Pressure and Monetary Policy: Asia and Latin America in the 1990s*, Evan Tanner
99/115: *The External Wealth of Nations—Measures of Foreign Assets and Liabilities for Industrial and Developing Countries*, Philip Lane and Gian Maria Milesi-Ferretti
99/116: *The Relative Merits and Implications of Inflation Targeting for South Africa*, Gunnar Jonsson
9/117: *Investment, Capital Accumulation, and Growth—Some Evidence from The Gambia 1964–98*, Christian H. Beddies

IMF Staff Country Reports ($15.00)

99/110: Republic of Moldova: Recent Economic Developments
99/111: Venezuela: Statistical Appendix
99/114: Japan: Economic and Policy Developments (Background Paper to Pilot Project)
99/115: Sweden: Selected Issues (Background Paper to Pilot Project)
99/118: Haiti: Statistical Annex (Background Paper to Pilot Project)
99/119: New Zealand: Selected Issues and Statistical Appendix (Background Paper to Pilot Project)

Publications are available from IMF Publication Services, Box XS900, IMF, Washington, DC 20431 U.S.A. Telephone: (202) 623-7430; fax: (202) 623-7201; e-mail: publications@imf.org.

For information on the IMF on the Internet—including the full texts of the English edition of the *IMF Survey*, the *IMF Survey*'s annual *Supplement on the IMF*, *Finance & Development*, an updated *IMF Publications Catalog*, and daily SDR exchange rates of 45 currencies—please visit the IMF's website (www.imf.org). The full texts of all Working Papers and Policy Discussion Papers are also available on the IMF's website.

reduction, they underscored the need to provide adequate expenditure allocations for health, education, and social safety nets.

"Directors encouraged the authorities to persevere in their economic restructuring program, which they considered essential for a fundamental improvement in competitiveness and overall economic performance.

"Directors recognized that the ambitious reform agenda represented a major challenge for the authorities, and that timely financial assistance on concessional terms and substantial technical assistance from the international community would be essential for the success of the program."

Program summary

The *medium-term reform program* aims at establishing an environment conducive to a private-sector-led role in the growth process, as well as to an enhancement of the country's social indicators.

Macroeconomic objectives for the 1999–2002 period entail real GDP growth of 3 percent on average, annual inflation limited to 2 percent, and an overall balance of payments deficit contained at 2.5 percent of GDP on average.

The medium-term fiscal stance will be directed at maintaining macroeconomic stability and strengthening the external position. To this end, the authorities will pursue fiscal restraint to limit the budget deficit to 3 percent of GDP on average.

The structural reform program includes tax, revenue administration, and budget management reforms, as well as completion of the demobilization program; adoption of a retirement program; and a civil service reform, which together would ensure a further lowering of the wage bill.

The authorities' poverty reduction strategy encompasses three components: higher economic growth, increased outlays for education and health, and the social safety net.

Djibouti joined the IMF on December 29, 1978, and its quota is SDR 15.9 million (about $22 million). Its outstanding use of IMF financing currently totals SDR 6.9 million (about $9.6 million).

Press Release No. 99/50, October 18

IMF congratulates Nobel economics laureate

Senior IMF management welcomed the award of the 1999 Nobel Prize for economic sciences to Columbia University professor Robert Mundell. Excerpts of IMF Deputy Managing Director Shigemitsu Sugisaki's statement to the IMF's Executive Board, issued on October 13 as News Brief 99/70 (also available on the IMF's website: www.imf.org), follow.

"It is a pleasure for me to note that Professor Robert Mundell of Columbia University has been awarded this year's Nobel Prize for economic sciences. This is a particular pleasure for us at the IMF because Professor Mundell was a member of the staff of the Research Department in the period 1961–63, and it was during his time here that some of the work that is now being recognized was done, including the formulation of the Mundell-Fleming model, which has proved so important to our operational work. Professor Mundell left a legacy in the form of students who have been prominent members of the IMF staff. Professor Mundell was also a Visiting Scholar in the IMF on several occasions in the 1990s."

IMF publications related to Mundell's work

• What was to become known as the Mundell-Fleming model was first outlined in articles in IMF *Staff Papers* by Mundell in March 1962 and by J. Marcus Fleming in November 1962.

• *Optimum Currency Areas: New Developments and Policies* (1997) ($15.00). Contains the proceedings of a December 1996 symposium on optimum currency areas honoring Robert Mundell and his seminal contribution (reprinted in the volume) on this and many other major economic issues.

• *Inflation and Growth in China* (1996), edited by Manuel Guitián and Robert Mundell ($25.00). Contains the proceedings of a conference held in Beijing in May 1995.

These publications are available from IMF Publications Services. See page 347 for ordering information.

Selected IMF rates

Week beginning	SDR interest rate	Rate of remuneration	Rate of charge
October 11	3.56	3.56	4.05
October 18	3.67	3.67	4.17

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

Data: IMF Treasurer's Department

Member's use of IMF credit

(million SDRs)

	During September 1999	January – September 1999	January – September 1998
General Resources Account	**713.40**	**8,534.31**	**14,079.77**
Stand-By Arrangements	526.40	6,067.57	7,232.74
SRF	0.00	3,636.09	5,125.00
EFF	187.00	1,786.34	4,690.48
SRF	0.00	0.00	675.02
CCFF	0.00	680.40	2,156.55
ESAF	**57.41**	**629.09**	**653.39**
Total	**770.81**	**9,163.40**	**14,733.16**

SRF = Supplemental Reserve Facility
EFF = Extended Arrangements
CCFF = Compensatory and Contingency Financing Facility
ESAF = Enhanced Structural Adjustment Facility

Figures may not add to totals shown owing to rounding.

Solutions must go beyond relief to encompass broad economic and political strategy

Debt has been identified as a key element undermining efforts to achieve sustainable development in African countries. But debt relief on its own cannot remove the crippling burden under which the African countries have labored for the past two decades; nor can it achieve the goal of rapid, sustainable growth leading to poverty reduction.

A seminar organized jointly by the government of Japan and the Central Bank of Kenya, with support from the United Nations Development Program (UNDP) and the collaboration of the IMF and the World Bank, was held in Nairobi, Kenya, on August 30–31. It provided a forum for African ministers of finance and central bank governors from more than 14 countries, joined by leaders of private business and religious groups, to consider solutions to Africa's debt problems. Participants also included representatives from international institutions and donor and creditor governments. The conference was officially opened by Daniel arap Moi, President of Kenya, and chaired by Festus G. Mogae, President of Botswana (and former IMF Executive Director). Masaru Yoshitomi, Dean of the Asian Development Bank Institute, served as Vice-Chair.

In his opening remarks, Mogae noted that Africa faces an immense debt burden. Citing World Bank figures, Mogae said Africa's combined current external debt totals more than $285 billion, representing more than 200 percent of its exports. The heavy burden of servicing that debt has diverted resources away from essential development programs, such as the provision of infrastructure and basic human development efforts. Millions of people, he said, are suffering from poverty and deprivation.

Workable solutions, Mogae said, should reflect African needs and perspectives while being acceptable to the international community. Such solutions must necessarily involve sharing of the debt burden between lenders and borrowers and must also reflect the reality that debt relief will be effective in contributing to development only if it is combined with high-quality economic management. We can expect willingness on the part of the international community to contribute to putting Africa onto a sustainable path of higher growth, he said, only if we make earnest efforts to help ourselves.

Depth and diversity of the debt problem

In 1996, the IMF and the World Bank launched an initiative aimed at providing debt relief to the heavily indebted poor countries (HIPCs) of Africa. In June 1999, proposals for enhancing the HIPC Initiative were made at the Cologne summit meeting of the Group of Seven industrial countries, emphasizing the use of resources from debt relief to accelerate social development. According to G.E. Gondwe, Director of the IMF's African Department, there now seems to be a good chance that a satisfactory solution can be found to the external debt overhang of most of the indebted poor countries of Africa. But, he stressed, no single approach to resolving the debt problem will be right for each country. Even in its enhanced form, the HIPC Initiative would be applicable to about 30 of the 50 African states. It is therefore important to recognize the diversity of the debt situations of individual countries and to look for solutions most appropriate to the individual case.

Mogae: Workable solutions should reflect African needs and perspectives while being acceptable to the international community.

Gondwe and several other participants, including Neway Gebre-ab, Advisor to the Prime Minister of Ethiopia, and Earnest Ebi, Deputy Governor of the Central Bank of Nigeria, noted that the share of official development assistance in net capital flows to developing countries in general has declined over the period 1995–98. This trend is worrisome, because even if the HIPC Initiative enables African countries to lower their debt-service burden and remove the debt overhang, they will continue to need substantial resources from abroad to help finance their investment requirements. The right policy environment is therefore critical not only to facilitate the delivery of debt relief but also to encourage private sector development, higher and more efficient investment, and faster growth.

Effectiveness of debt initiatives

Since the late 1980s, the international community has undertaken several initiatives to liberate sub-Saharan Africa from the debt trap in which it has been ensnared, according to Chrysanthus B. Okemo, Kenya's Minister of Finance, but none has achieved lasting results. Poverty remains widespread and deeply rooted, while frequent conflicts between nations, ethnic disputes, terrorism, and massive refugee flows have worsened the debt situation.

The disappointing experience of the past has, however, provided strong impetus for change in the approach to aid, according to Benno Ndulu of the World Bank mission in Tanzania. Positive developments in the 1990s have given some cause for optimism, including

- a more judicious application of financial aid in support of better policy stances;

• a sharper focus on developmental goals, including through the adoption of international targets for monitoring use of aid resources; and

• rapid liberalization of political systems in Africa, the greater acceptance of democracy, and increased pressure for devolution of authority to subnational governing entities.

While expressing full support for the HIPC Initiative, Godfrey Simasiku, Deputy Minister of Finance and Economic Development for Zambia, noted that further provisions for human development and poverty eradication must be incorporated into the enhanced initiative to make it more relevant and appropriate to the prevailing situation in developing countries.

Debt relief is essential if sub-Saharan Africa is to reduce the poverty that ravages the continent, Gerald M. Ssendaula, Minister of Finance, Planning, and Economic Development for Uganda, said, but it is the adherence to sound economic management that will ensure that the benefits of debt relief are maximized and sustained over the longer term.

In this context, Yukio Yoshimura, IMF Executive Director for Japan, noted that past aid had not always been effective because it had not always been directed at high-priority, growth-inducing activities and, on the credit side, had often been motivated more by concern with establishing commercial ties than with fostering development. He warned, however, that debt reduction would have a significant cost implication for creditors that might adversely affect future aid flows.

Social development, debt relief

One in four people live below the international poverty line of $1 a day, and the elimination of poverty is the major challenge of this generation, according to Peter Grant of the Department for International Development, United Kingdom. Debt relief is one way of reducing poverty, and a main priority for the enhanced HIPC Initiative is to integrate debt reduction with poverty-reduction strategies and government budgets. Where governments are committed to poverty reduction, Grant said, resources must continue to be made available, supplementing the additional funds realized from debt relief.

How solving the debt problem can best contribute to meeting the long-term goals of development and poverty reduction is a key question in a consideration of the relationship between HIPC debt relief and social development, according to Jeffrey A. Katz of the World Bank. The starting point would not be simply to make HIPC more poverty oriented, but rather to integrate HIPC debt relief into a broader effort to enhance the impact of economic adjustment and social development programs.

According to Archbishop Desmond Tutu, African independence, following two centuries of colonial exploitation, did not bring the hoped-for development and prosperity but rather political instability, war, and crushing poverty. Much of this agony has been self-imposed, he said, but now Africa is the victim of a new and devastating bondage—debt.

Jubilee 2000, a campaign that calls for across-the-board debt cancellation, is designed to free Africa from this twentieth-century bondage, Tutu said. He proposed a two-stage process, with the first stage involving a six-month moratorium on all debt repayments. Cancellation would be granted only to those governments demonstrating that public resources are used truly for the benefit of the people in an environment of democracy, demilitarization, and respect for human rights.

Not only must the HIPCs today address the legacy of past problems, but they must also face new challenges that threaten to reverse hard-earned human development gains, Thelma Awori, Assistant Administrator and Director, UNDP, Africa, said. HIPC debt relief should be an integrated element in a wider financing strategy. She also emphasized the importance of ownership and control by debtor countries in the design and implementation of sound macroeconomic policies that include debt management and sustainability provisions specifically intended to help the poor.

Future debt relief and resource flows

Stressing a recurrent theme of the seminar, Mouhamed El Moustapha Diagne, Minister of Economics, Finance, and Planning for Senegal, said that implementation of the HIPC Initiative, even with the more extensive relief proposed under the revised initiative, should not lead to a lessening of bilateral and multilateral financial assistance. In addition, the international community needs to find a framework for countries that are not eligible for HIPC but are still in need of debt relief and development assistance.

Kwesi Botchwey, Director of the African Program at the Harvard Institute for Development, stressed that the Cologne initiative, although an improvement on the original HIPC, did not go far enough in addressing impoverished countries whose social development efforts—especially in the urgent area of public health—were being jeopardized by high debt-service payments. All HIPCs need an increase in net financing flows. Therefore, the HIPC framework needs to be revised to include write-offs of obligations to the World Bank and the IMF's Enhanced Structural Adjustment Facility (ESAF), better coordination among creditors to ensure that debt relief is not offset by declines in other assistance flows, and integration of debt-relief in a medium-term macroeconomic policy framework.

Debt write-offs for all African countries, while providing immediate relief, would, however, pose problems, in that they would threaten market access, accord-

ing to Anthony R. Boote, Assistant Director in the IMF's Policy Development and Review Department. Moving away from uniform action by all creditors on debt, as provided for in the HIPC Initiative, would involve difficult and, most likely, time-consuming negotiations. Also, the IMF was working on improvements to ESAF to strengthen the focus on growth and poverty reduction; canceling ESAF obligations would, Boote said, prevent new ESAF lending.

The purpose of the HIPC Initiative, Boote said, was to provide debt relief in a way that would reinforce other tools, aid flows, and domestic resources—to achieve faster growth and poverty reduction. It is therefore key that recipient countries use the resources freed

Stand-By, EFF, and ESAF Arrangements as of September 30

Member	Date of arrangement	Expiration date	Amount approved	Undrawn balance
			(million SDRs)	
Stand-By			**39,577.64**	**13,427.54**
Bosnia and Herzegovina	May 29, 1998	April 28, 2000	77.51	24.24
Brazil[1]	December 2, 1998	December 1, 2001	13,024.80	5,969.70
Cape Verde	February 20, 1998	December 31, 1999	2.50	2.50
El Salvador	September 23, 1998	February 22, 2000	37.68	37.68
Korea[1]	December 4, 1997	December 3, 2000	15,500.00	1,087.50
Mexico	July 7, 1999	November 30, 2000	3,103.00	2,068.60
Philippines	April 1, 1998	March 31, 2000	1,020.79	475.13
Romania	August 5, 1999	March 31, 2000	400.00	347.00
Russia	July 28, 1999	December 27, 2000	3,300.00	2,828.57
Thailand	August 20, 1997	June 19, 2000	2,900.00	400.00
Uruguay	March 29, 1999	March 28, 2000	70.00	70.00
Zimbabwe	August 2, 1999	October 1, 2000	141.36	116.62
EFF			**11,749.03**	**6,603.76**
Argentina	February 4, 1998	February 3, 2001	2,080.00	2,080.00
Azerbaijan	December 20, 1996	December 19, 1999	58.50	5.26
Bulgaria	September 25, 1998	September 24, 2001	627.62	366.12
Croatia, Republic of	March 12, 1997	March 11, 2000	353.16	324.38
Indonesia	August 25, 1998	November 5, 2000	5,383.10	1,585.40
Jordan	April 15, 1999	April 14, 2002	127.88	117.22
Moldova	May 20, 1996	May 19, 2000	135.00	47.50
Pakistan	October 20, 1997	October 19, 2000	454.92	341.18
Panama	December 10, 1997	December 9, 2000	120.00	80.00
Peru	June 24, 1999	May 31, 2002	383.00	383.00
Ukraine	September 4, 1998	September 3, 2001	1,919.95	1,207.80
Yemen	October 29, 1997	March 1, 2001	105.90	65.90
ESAF			**3,901.95**	**2,122.25**
Albania	May 13, 1998	May 12, 2001	45.04	23.69
Armenia	February 14, 1996	December 20, 1999	109.35	20.93
Azerbaijan	December 20, 1996	January 24, 2000	93.60	11.70
Benin	August 28, 1996	January 7, 2000	27.18	10.87
Bolivia	September 18, 1998	September 17, 2001	100.96	67.31
Burkina Faso	September 10, 1999	September 9, 2002	39.12	33.53
Cameroon	August 20, 1997	August 19, 2000	162.12	36.03
Central African Republic	July 20, 1998	July 19, 2001	49.44	32.96
Côte d'Ivoire	March 17, 1998	March 16, 2001	285.84	161.98
Ethiopia	October 11, 1996	October 22, 1999	88.47	58.98
The Gambia	June 29, 1998	June 28, 2001	20.61	17.18
Ghana	May 3, 1999	May 2, 2002	155.00	132.84
Guinea	January 13, 1997	January 12, 2000	70.80	23.60
Guyana	July 15, 1998	July 14, 2001	53.76	35.84
Haiti	October 18, 1996	October 17, 1999	91.05	75.88
Honduras	March 26, 1999	March 25, 2002	156.75	96.90
Kyrgyz Republic	June 26, 1998	June 25, 2001	73.38	43.00
Macedonia, FYR	April 11, 1997	April 10, 2000	54.56	27.28
Madagascar	November 27, 1996	July 27, 2000	81.36	40.68
Malawi	October 18, 1995	October 31, 1999	50.96	7.64
Mali	Aug 6, 1999	August 5, 2002	46.65	39.90
Mauritania	July 21, 1999	July 20, 2002	42.49	36.42
Mongolia	July 30, 1997	July 29, 2000	33.39	21.89
Mozambique	June 28, 1999	June 27, 2002	58.80	50.40
Nicaragua	March 18, 1998	March 17, 2001	148.96	53.82
Pakistan	October 20, 1997	October 19, 2000	682.38	417.01
Rwanda	June 24, 1998	June 23, 2001	71.40	47.60
Senegal	April 20, 1998	April 19, 2001	107.01	57.07
Tajikistan	June 24, 1998	June 23, 2001	100.30	53.34
Tanzania	November 8, 1996	February 7, 2000	181.59	0.00
Uganda	November 10, 1997	November 9, 2000	100.43	26.78
Yemen	October 29, 1997	October 28, 2000	264.75	114.75
Zambia	March 25, 1999	March 24, 2002	254.45	244.45
Total			**55,228.62**	**22,153.55**

[1]Includes amounts under Supplemental Reserve Facility.
EFF = Extended Fund Facility.
ESAF = Enhanced Structural Adjustment Facility.
Figures may not add to totals owing to rounding.

Data: IMF Treasurer's Department

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

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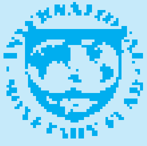

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up by debt relief to adopt transparent policies for private-sector-led growth with a comprehensive nationally owned framework for poverty reduction.

The central importance of the private sector as the motor of high and sustained growth and poverty reduction was also stressed by Joseph Wanjui, a Kenyan businessman. To avoid the mistakes of the past and ensure future progress, he said, there must be a local commitment to the necessary economic and political reforms. All available resources must be used in a transparent and effective manner. Only in such a context of good governance would private entrepreneurship and domestic investment flourish and attract private capital from abroad.

Good governance

The days are gone when donors handed out blank checks to politically sympathetic governments with no conditions attached, Micah Cheserem, Governor of the Central Bank of Kenya, said. Africa is still paying the price for these apparent "free lunches."

In Africa, Cheserem said, the past decades have been witness to the absence of free and fair elections, civil strife and wars, corruption that has been costly for business, and a general breakdown of the rule of law. But in the past few years, an agenda for action has been developed and is being followed in many African countries. This agenda includes

- fighting against corruption,
- enhancing democracy and democratic principles;
- downsizing of government,
- establishing limited terms for key public offices,
- removing economic controls,
- privatizing public enterprises,
- establishing and observing codes of conduct, and
- improving the effectiveness of the judiciary.

The economic benefits of good governance, Cheserem concluded, are obvious. It improves resource use, from which economic growth follows. Government finances improve, in turn relieving the debt-service burden, while unemployment levels and poverty decline.

Poor governance has been a proven stumbling block to economic development in the developing world, according to Cyril Enweze, Vice President of the African Development Bank, and was largely responsible for the inability of governments to successfully implement economic reforms and effectively tackle the debt problem.

Enweze said that the issue of good governance for the productive use of resources needs to be tackled on two fronts: in individual countries and in the international community. At the individual country level, which includes national governments and civil society, necessary key elements include accountability, transparency, anticorruption actions, participatory governance, and an enabling legal and judicial framework. At the international level, support should take the form of policy advice as well as the provision of technical and financial support.

Photo not available

Tutu: Debt cancellation would be available only to countries where there is democracy, demilitarization, and respect for human rights.

It is clear, Enweze concluded, that long-term economic growth is determined by a range of factors, including resource endowments, the international economic environment, social and political change, appropriate economic policy, and, most important, good governance.

Conclusion

In his concluding statement, President Mogae noted that several themes had emerged from the discussions during the seminar:

- Debt relief alone is no panacea for African development problems. Rather, it must be part of an integrated strategy for encouraging growth and social development.
- African countries will have to reduce their dependence on official development assistance over time, but for the immediate future they will continue to need such aid flows. Debt relief should therefore not be regarded as a substitute for aid flows.
- While debt relief must be tailored to each country's particular situation, the envisaged enhancements to the HIPC Initiative are a welcome step in the right direction, particularly their integration of social dimensions and poverty reduction into the framework for debt relief.
- Countries will have to justify their case for additional assistance through good governance, the observance of the rule of law, and zero tolerance of corruption. ■

The proceedings of this seminar will be published by the IMF early next year.