IMF Survey

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NEWS: De Rato concludes multi-country visit

The IMF's Managing Director traveled to China for a Group of 20 meeting, and to Pakistan, Saudi Arabia, and Belgium for discussions with senior country and regional officials. In China, de Rato reiterated support for the change in the country's exchange rate arrangement. In Saudi Arabia for a GCC meeting, he lauded progress in regional integration. In Pakistan, he discussed the human and economic costs of the recent devastating earthquake.

Jason Lee/Reuters

319

POLICY: An outsider's take on IMF reform

In Ted Truman's view, the IMF has lost sight of where it wants to go. The Senior Fellow at the Institute for International Economics argues that a new consensus must be forged among shareholders on matters ranging from governance reform to capital account liberalization. Truman's prescriptions for the Fund also include rolling back its involvement with poor countries, giving more forceful advice on exchange rates, and encouraging IMF Executive Directors to publish their statements on the IMF's Board.

321

COUNTRY FOCUS: Australia's enduring expansion

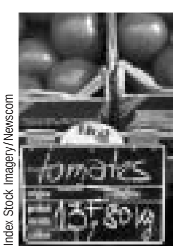
Wide-ranging structural reforms and improved monetary and fiscal policy frameworks have helped Australia's economy grow since 1992. Unemployment, inflation, and government debt remain low, while the economy has become more resilient. But this did not happen overnight. Australia's incremental approach, particularly to labor market reform and trade liberalization, spread adjustment costs over time and enabled the country to sustain its reform efforts.

Greg Wood/AFP

324

RESEARCH: Special agricultural safeguards

To protect local producers from a temporary drop in price, or surge in quantity, of certain agricultural imports, some countries can invoke additional import duties that were introduced in the World Trade Organization's Uruguay Round of trade talks. These safeguards form the basis of a special mechanism that negotiators under the Doha Round have agreed to create for developing countries. But a new IMF Working Paper warns that because the safeguards are, in fact, protectionist devices, caution must be exercised in designing the new mechanism.



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328

IN THIS ISSUE

What's on

NOVEMBER

3 "Monetary Institutions and Economic Development," 23rd Annual Conference, Cato Institute, Washington, D.C.

3–4 IMF Jacques Polak 6th Annual Research Conference, Washington, D.C.

4 IMF Economic Forum, "Reforming the IMF: Governance and the Executive Board," Washington, D.C.

4–5 Summit of the Americas, Mar del Plata, Argentina

8–11 IMF forums on regional economic developments in Guatemala, El Salvador, Nicaragua, and the Dominican Republic

16–18 World Summit on the Information Society, Tunis, Tunisia

18 APEC Joint Ministerial Meeting, Busan, Korea

18 World Bank's *Global Economic Prospects (GEP)* presentation, Berlin, Germany

24 IMF forum on regional economic developments for academics, nongovernmental organizations, and media, San José, Costa Rica

27–29 World Economic Forum, India Economic Summit, New Delhi, India

28–30 IMF seminar for parliamentarians from Algeria, Libya, Morocco, and Tunisia; Rabat, Morocco

28–December 9 United Nations Climate Change Conference, Montreal, Canada

DECEMBER

4–9 International Conference on HIV/AIDS and Sexually Transmitted Infections in Africa, Abuja, Nigeria

10 Meeting of Group of Seven Finance Ministers and Central Bank Governors, London, United Kingdom

12–14 UNCTAD, Expert Meeting on Capacity Building in the Area of FDI Data Compilation and Policy Formulation in Developing Countries, Geneva, Switzerland

13–18 The 6th World Trade Organization Ministerial Conference, Hong Kong SAR

JANUARY

6–8 American Economic Association Annual Meeting, Boston

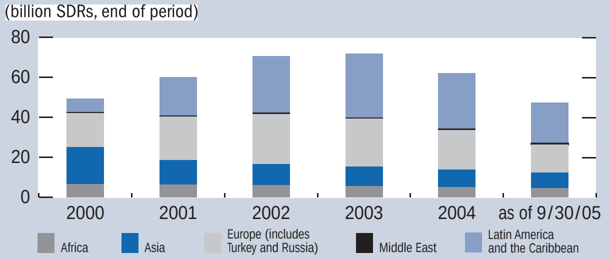
25–29 World Economic Forum Annual Meeting, Davos, Switzerland

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

At a glance

IMF financial data

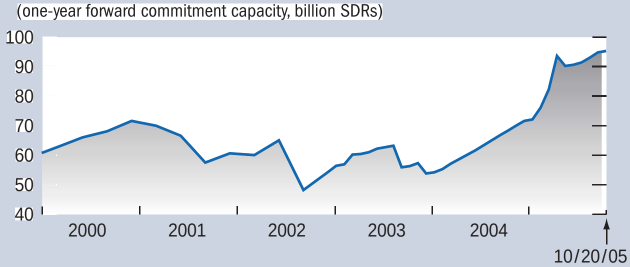
Total IMF credit and loans outstanding, by region
(billion SDRs, end of period)



Major currencies, rates per SDR
(end of period)

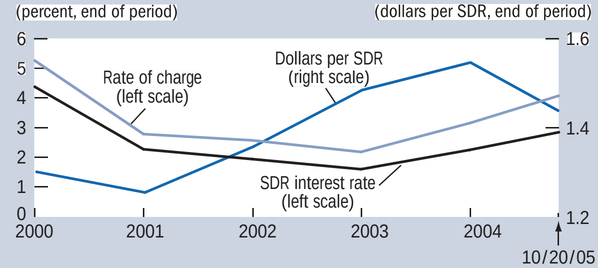
	October 26, 2005	Year ago
Euro	1.201	1.172
Japanese yen	166.694	160.017
U.K. pound	0.815	0.816
U.S. dollar	1.448	1.499

IMF available resources
(one-year forward commitment capacity, billion SDRs)



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

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



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

De Rato trip highlights reforms and regional issues

During a recent visit to Pakistan, only days after a devastating earthquake killed at least 54,000 people in the north of the country and neighboring India, IMF Managing Director Rodrigo de Rato assured President Pervez Musharraf and Prime Minister Shaukat Aziz that "the IMF stands ready to support Pakistan at this difficult time." De Rato's visit to Pakistan on October 17 was part of a four-country trip, which also included stops in China, Saudi Arabia, and Belgium.

China. In Xianghe on October 15, de Rato attended the Group of 20 meeting, assuring participants that all IMF members should enjoy fair representation in the institution. He later told the press that "we will work to give a greater voice in the IMF's governing councils to those regions and countries that have emerged as important forces in the global economy, especially Asia." Describing China's economic success as "central to the overall strength of the global economy," he urged the Chinese authorities to continue implementing prudent economic policies and structural reforms—especially in the financial sector, public finance, and labor markets—to help raise living standards, enhance income distribution, and improve China's further integration in the global economy. During a meeting with Chinese Premier Wen Jiabao the previous day, he reaffirmed the IMF's strong support for China's reform of its exchange rate arrangement this past July.

Faisal/Simcolabs

IMF Managing Director Rodrigo de Rato (right) meets with Abdul Sattar Edhi, founder of Pakistan's Edhi Foundation.

Pakistan. In Islamabad, de Rato met with government leaders and key ministers, offering condolences on behalf of the IMF to the Pakistani people. The visit, which had been long-planned, allowed de Rato to discuss the human and economic costs of the previous weekend's devastating earthquake and how the IMF could assist under its natural disaster facility, which provides emergency financing. He also visited the children's wing of the Pakistan Institute of Medical Sciences and met Abdul Sattar Edhi, the founder of Edhi Foundation, a local charity directly involved in helping earthquake victims. De Rato praised the turnaround in Pakistan's economy in recent years—an improvement made possible by market-oriented structural reforms supported by macroeconomic stabilization. He said the key challenge over the medium term was to sustain higher growth rates, boost living standards, and reduce poverty. This will require efforts in several areas, including substantially increasing investment, raising government revenue by broadening Pakistan's low tax base, and increasing foreign trade. Although the earthquake is unlikely to dent Pakistan's current strong economic growth substantially, he said, it adds to the country's near-term economic challenges, such as higher inflation rates and increased oil prices. Reconstruction costs could lead to some increase in the budget deficit in the short run.

Saudi Arabia. In talks with King Abdullah of Saudi Arabia and other senior officials, in Jeddah on October 18, de Rato commended them for their role in support of oil market stability and for using a large part of recent fiscal surpluses to invest in much-needed infrastructure, health care, and education. He expressed the IMF's appreciation for Saudi Arabia's role in providing economic and financial support to countries in the region, as well as developing countries, generally.

Attending a meeting of the finance ministers and central bank governors of the six-nation Gulf Cooperation Council (GCC), he welcomed the GCC's decision to significantly increase oil production to meet rapidly growing market demand and fully endorsed GCC members' investment plans to expand oil and gas output capacity. Voicing strong support for the GCC's aim to establish a monetary union by 2010, he lauded the progress in regional integration so far and offered the IMF's help in the form of policy advice and technical assistance.

Belgium. On the last leg of his trip, de Rato stopped in Brussels, on October 19–20, to participate in a meeting of the Capital Markets Consultative Group—a forum for informal dialogue between participants in international capital markets and the IMF. De Rato also met with the European Parliament's Committees on Economic and Monetary Affairs, International Trade, and Development, as well as representatives of the European press. He told members of the European Parliament that he was keen to have regular contacts and cooperation between the IMF and the European Parliament. ■

In the news

Continued strong growth in Ghana calls for prudent fiscal and debt management

In 2004, Ghana's economy, driven by the agriculture, services, and construction sectors, grew by 5.8 percent—its fastest pace in more than a decade, the IMF said in its annual economic review. Inflation declined by half to 12.6 percent, the overall budget deficit narrowed, improvements in the external sector allowed for a buildup of international reserves, progress with reforms helped strengthen the financial sector, and debt-service indicators improved markedly. The country's strong growth has helped reduce the poverty rate, now estimated at about 35 percent of the population.

Medium-term prospects appear promising, provided that further progress is made toward macroeconomic stability and fiscal sustainability, inflation declines further, and the government perseveres with structural reform. Continued strong private- and public-sector investment in vital infrastructure should provide a solid basis for growth. A further increase in world oil prices is the main risk to the positive outlook.

Looking ahead, the IMF's Executive Board identified prudent fiscal and debt management policies, coupled with intensified structural reforms, as key to private sector-driven growth, diversification of the production base, and further poverty reduction. While the overall fiscal deficit narrowed in 2004, the outturn was higher than envisaged. The Board urged the authorities to avoid further fiscal slippages, emphasizing, in particular, the need to control wages and salaries in the public sector. It also underscored the importance of increasing the fiscal space to allow room for growth-enhancing and poverty-reducing expenditures aimed at achieving the Millennium Development Goals. In this context, the Board welcomed the adoption of a new pricing mechanism for petroleum products as an important reform that will reduce the budget's vulnerability to world oil prices. At the same time, it encouraged the authorities to further reduce the ratio of domestic debt to GDP. However, noting that Ghana's debt sustainability remains vulnerable to external shocks, the Board emphasized the importance of Ghana's relying on concessional financing. ■

Ghana	2001	2002	2003	2004	Proj. 2005
			(percent change)		
Real GDP	4.2	4.5	5.2	5.8	5.8
Consumer price index	32.9	14.8	26.7	12.6	14.3
			(percent of GDP)		
External debt service due	8.5	7.8	5.9	6.4	4.7
Overall government budget balance[1]	–14.6	–8.1	–8.0	–9.5	–7.3

[1]Excluding grants; before domestic arrears clearance.
Data: Ghanaian authorities and IMF estimates and projections.

The Gambia needs break from stop-go policies

Since the mid-1980s, The Gambia's economy has performed unevenly owing to external shocks, macroeconomic and structural policy slippages, poor governance, and weak institutions, the IMF said in its annual economic review. Undisciplined fiscal policies have increased the government's recourse to domestic bank financing, which, in turn, has raised real interest rates, increased the domestic debt burden, and crowded out private investment. Weak policy implementation and governance problems also derailed The Gambia's 2002 three-year program under the IMF's Poverty Reduction and Growth Facility.

A recent turnaround in macroeconomic policy implementation—particularly through end–2004—helped improve the basic primary fiscal surplus, reduce inflation, stabilize the exchange rate, and rebuild international reserves. The relatively high interest rates necessary to reverse the macroeconomic deterioration have, however, placed a heavy burden on domestic debt service and on credit markets. A weakening in policies during the first quarter of 2005 has led to a substantial increase in net government debt and excessive growth in monetary aggregates. Also, a decision to license a monopoly quasipublic enterprise to market and process groundnuts has had a severe adverse impact on processed groundnut exports on account of delays in raising the finances to purchase what was a bumper harvest.

The IMF's Executive Board said that the main medium-term challenge for The Gambia is to make a decisive break from stop-go policies and embark on a comprehensive economic program. This should include steps to accelerate privatization, improve the investment climate, and strengthen public expenditure management, governance, and accountability. To address the recent fiscal slippage, the authorities could implement ceilings on discretionary expenditure, improve cash management, enforce the public enterprises' repayment of government loans, and phase out petroleum product subsidies, while bearing in mind the social implications. Further, the IMF Board recommended improved tax administration to strengthen revenues and a phase-out of tax exemptions to broaden the tax base. ■

The Gambia	2001	2002	2003	2004
		(percent change)		
Real GDP	5.8	–3.2	6.9	5.1
CPI (annual average basis)	4.5	8.6	17.0	14.2
		(percent of GDP)		
Central government budget balance[1]	13.9	–4.6	–4.7	–5.7
Stock of domestic debt	38.1	36.6	25.2	30.7

[1]Including grants; adjustments have been incorporated for previously unrecorded public spending and borrowing in 2001, financed by the Central Bank of The Gambia.
Data: The Gambian authorities and IMF staff estimates.

For more information, please refer to Public Information Notices No. 05/107 (Ghana) and No. 05/121 (The Gambia) on the IMF's website (*www.imf.org*).

Interview with Ted Truman

IMF is facing an identity crisis

How the IMF should undertake reform is currently the subject of intense debate, with experts like Ted Truman—Senior Fellow at the Institute for International Economics—taking a strong stance on the topic. As a former Assistant Secretary of the U.S. Treasury for International Affairs and Director of the Division of International Finance of the Federal Reserve Board, Truman is also well-placed to comment on the IMF's largest shareholder—the United States—and its policies toward the IMF. He spoke with Camilla Andersen of the IMF Survey *about the challenges facing the IMF today.*

IMF SURVEY: You have said the IMF is facing an identity crisis. Why is that?

TRUMAN: The IMF has lost sight of where it wants to go. There is a lack of consensus among its shareholders about what its mission should be, who its main clients are, and what the benefits of membership should be.

This loss of direction can be traced back to the mid–1990s. Before then, there was broad satisfaction with what the IMF was doing, including with its role in helping former communist countries transition from planned to market economies. But when a crisis hit Mexico in 1994, a big split occurred over how to address it. The IMF stepped in and a number of countries, especially in Europe, felt that that was a mistake. The IMF did the right thing at the time. But the Fund—and the United States, which took a lead role in coordinating the response to the crisis—did a poor job of convincing other countries that it was on the right track. And when the Asian crisis hit in 1997, the divisions were still there.

Eugene Salazar/IMF

Truman: The most recent expression of the IMF's declining relevance is its "inability to influence policies affecting current global imbalances, including the U.S. budget deficit."

Further complicating matters, the industrial countries no longer need the IMF and have thus tended to ignore its advice in recent years. As a result, the IMF's role has been reduced. It never has had a great deal of influence, but what little influence it had—including its ability to mobilize global public opinion—has been waning. The most recent expression of this declining relevance is the IMF's inability to influence policies affecting current global imbalances, including the U.S. budget deficit.

IMF SURVEY: Pressure has been mounting on the IMF to become more forceful in its monitoring of exchange rates, especially with respect to China. But isn't there something to be said for the "quiet diplomacy" advocated by the IMF's Managing Director?

TRUMAN: My view is "yes, but . . ." Clearly there is a role for quiet diplomacy, but there is also a role for initiative and plain speaking—not that you should do this all the time.

In part, the IMF's muted response is due to a lack of consensus elsewhere—for example, within the Group of Seven [G7] industrial countries —on how to tackle China. All they agree on is that Asia as a whole should aim for more flexible exchange rates. But we need more than just a few baby steps over time in the direction of greater exchange rate flexibility, because the current account surpluses of Asian countries are growing relative to the rest of the world.

The other shortcoming of the IMF's response so far—and this is actually as much an indictment of the U.S. as the IMF position—is that there has been too much focus on China. People just don't realize how difficult it is for the IMF's Managing Director to single out one country and say: "You're making a big mistake." What the IMF should have done instead is to say: "There is a problem in Asia as a whole. Asian currencies need to appreciate relative to the rest of the world." Let's not forget that China is running a current account deficit with most of its Asian neighbors.

I don't think of this dialogue as pressure. Rather, it is trying to figure out a way to help Asia address what is a global problem. If the Doha round of trade negotiations fails and there is a turn toward protectionism, then these global imbalances could be very dangerous for the system as a whole. It would be like a busted marriage. Everybody would be to blame—including, in this case, the marriage counselor.

IMF Survey: You have argued that the IMF should be given formal jurisdiction to deal with capital account issues. Can you explain why—given that many others don't think that is a good idea?

Truman: I have recently changed my view on this. I no longer feel strongly about the need to give the IMF formal jurisdiction. I agree with the Managing Director's position that the IMF should be engaged with its members' capital account and financial sector challenges, but the basis of that engagement is neither well grounded nor accepted. There is a lot of disagreement about what the IMF should or should not be doing in this area—including on what it did in the past—even though I think the Independent Evaluation Office's report on this subject has helped clear the air, at least intellectually.

What is needed is to establish a basis for the IMF's advice that is broadly accepted by its membership. As part of this work, it would be desirable, but not essential, to lay out capital account liberalization as a long-term goal. There is probably more consensus on the objective of capital account liberalization today than there was on current account liberalization 60 years ago, so stating it as a goal to be achieved over 5–25 years should be feasible.

Renewing the debate on amending the IMF's Articles of Agreement to include capital account liberalization would be one way to go about it. But it probably makes more sense to establish a consensus first. In an ideal world, we would agree on the objective, then structure a balanced amendment.

IMF Survey: How do you see the IMF's future engagement with low-income countries?

Truman: This is a serious issue for the IMF because the poor countries are a serious issue for the global economy. Whether you look at it in political or humanitarian terms, the system has failed. The issue is, therefore, whether you should use every instrument available—even if that means distorting some of these instruments—to address this problem.

Public opinion is pushing the IMF to be very involved with low-income countries. The institution is there, it has money, so why shouldn't it help? But even though the IMF is helping, it isn't using its own money—its concessional loans to poor countries under the Poverty Reduction and Growth Facility [PRGF] are being financed by a special trust. So it's sort of a mirage. And in the process, you're turning the IMF into one more development institution.

This isn't to say that the Fund has no role to play in low-income developing countries; it does. But this is one area where some of the balance should be shifted back toward the World Bank and the regional development banks. The IMF should maintain its role as an advisor on macroeconomic and financial policies and as a lender to help countries deal with short-term balance-of-payments problems. As part of that process, most of the functions of the PRGF could be transferred to the World Bank.

To the public, the IMF is synonymous with a big black box. And in some ways, this is not completely wrong. The Fund is less transparent than many central banks are today.

—Ted Truman

IMF Survey: You suggest in a recent paper that the IMF is falling behind "in the race to convey the truth about its policies, procedures, and accomplishments." What do you mean by that and what can the Fund do to improve the way it communicates?

Truman: While the IMF has changed a lot in recent years, my guess is that it has a poorer image today than it did 15–20 years ago, among both the general public and elites. It should be credited for having become much more transparent, and its efforts to be heard have been well intentioned and in tune with the changing shape of the world—whether by communicating through websites or arranging seminars. But to the public, the IMF is synonymous with a big black box. And in some ways, this is not completely wrong. The IMF is less transparent than many central banks are today. The question is what can be done about it.

Greater transparency at the Executive Board would remedy some of the problems. It is just not sustainable for people not to know what's going on inside the IMF's boardroom. For a start, minutes of Board meetings could be released in a more timely manner—for instance, quarterly—rather than after the current 10-year embargo. The statements of individual Executive Directors should also be made public. Why shouldn't these documents, which state the positions of individual member countries, be in the public domain?

IMF Survey: Your proposal for governance reform implies a massive reduction of Europe's power and influence in the IMF. Why should Europe agree to that?

Truman: Giving up some voting power would help build a better IMF and that would be in the interest of Europe.

The phrase I like best in the Managing Director's medium-term strategy is "it's not a zero-sum game." And as others have pointed out, Europe is actually batting below its weight right now. If it consolidated its position—even if that meant reduced voting power—it would carry more weight.

But Europe, at the moment, is in a complicated halfway house—on the one hand, it is a union, but on the other hand its members want to retain their sovereignty. If Europe is going to be Europe, it has to become more unified and develop common positions. There is a risk, of course, that such positions would be based on the lowest common denominator. But I am an optimist and expect a 'we-are-interested-in-the-global-good' view. A first step would be for Ireland, Spain, and Poland to pull out of their non-EU majority constituencies to join one of the EU-majority constituencies. As part of this process, non-EU candidate countries in EU chairs should be encouraged to move into different constituencies. While this wouldn't free up many seats on the Executive Board, it would represent a major breakthrough because it would set things in motion.

IMF Survey: The current U.S. administration, while in favor of giving developing countries more say, has ruled out an overall increase in IMF quotas. It has also said it will not accept any change in its own voting power. Where does that leave governance reform?

Truman: I find that view to be either cynical, naïve, or strategic. Now, I certainly don't think the United States should give up its veto and accept a significant reduction in its own voting share at this time. I may be wrong, but it seems to me the only way forward is an overall increase in quotas. No country has ever agreed to an absolute reduction in its quota. The U.S. Treasury and the administration do not favor a quota increase because they don't relish asking Congress to approve it, so they are trying to have it both ways. The result is that we are in a stalemate.

IMF Survey: Is the United States too heavy handed in its dealings with the IMF?

Truman: It is certainly not helpful that some people view the United States as running the IMF behind the scenes. The truth is that the United States has been the chief supporter of the Fund over the years. Historically, it has been the country that cares the most about the IMF as an institution, partly because of the United States' unique role in the world. You cannot point to any instance where the United States pursued a narrow national interest—leaving aside, perhaps, the Cold War—through the Fund. The United States has generally regarded the IMF as a dispenser of public goods and has encouraged it to act accordingly. You could say that the United States promotes unfettered capitalism, but the reality is that we don't push it that much, and I'm not even sure we have unfettered capitalism in the United States.

IMF Survey: What do you think of the IMF's own blueprint for reform, the medium-term strategy?

Truman: The Managing Director himself has labeled his report a "strategy paper"—not a five-year plan or blueprint for IMF reform. The report should be evaluated on that basis. It clearly identifies the key issues facing the Fund and is eloquent in much of its diagnosis. However, it is unfortunate that it does not tie the theme of globalization back to the IMF's mission of maximizing sustainable global growth and promoting international financial stability. Also, what struck me was that the list of proposed actions is long on process and short on actual proposals—even though the process proposals are, on the whole, sensible. My biggest regret is that the Managing Director did not seize the opportunity to issue a clarion call for change, clearly addressed to the IMF's membership. This reflects, in my view, a lack of urgency.

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—Ted Truman

IMF Survey: What are the most pressing priorities?

Truman: The IMF needs to rethink its mission. What should its role be in the global economy? How can that role be improved? My own view is that the IMF needs to redefine itself as a global financial institution rather than as a development institution.

IMF Survey: Where do you see the IMF 10 years from now?

Truman: I'm a pragmatic optimist, so I think it will be stronger, more coherent, and more respected. This is in everybody's interest. ■

Ted Truman's papers on IMF reform, "International Monetary Fund Reform: An Overview of the Issues," and "Rearranging IMF Chairs and Shares," are available at *www.iie.com*. Both papers were prepared for a conference on IMF reform that was hosted by the IIE on September 23 (see *IMF Survey*, October 17). The IMF's Medium-Term Strategy is available on the IMF's website at *www.imf.org.*

Country focus

Australia's enduring expansion: A handsome dividend from sustained reforms

Australia is now enjoying its 14th year of economic expansion. Unemployment has fallen to less than half its 1992 level, real incomes have risen rapidly, inflation has remained low, and net government debt has been virtually eliminated—all in the context of an increasingly stable and resilient economy (see chart below). These excellent results reflect wide-ranging structural reforms and improved frameworks for monetary and fiscal policies.

The start of Australia's structural reform process is often linked to the floating of the Australian dollar in December 1983. While the float was driven by the need to restore Reserve Bank of Australia (RBA) control over domestic interest rates in the face of increasingly volatile capital flows, this step proved to be a launching pad for broader structural reforms. The sustained implementation of reforms was also motivated by Australia's relatively weak economic performance in preceding decades, which had resulted in a long downward slide in per capita income levels relative to other advanced economies.

At the outset of reforms, Australia's economy was sheltered by high tariffs, domestic competition was limited by government monopolies, and labor markets were rendered inflexible by the centralized "awards" system for setting the wages and working conditions of most employees. The initial phase of reforms in the mid-1980s included financial sector deregulation, reductions in external tariffs, commercialization and privatization of public enterprises, and the liberalization of key sectors such as aviation and telecommunications. Removing interest-rate controls, liberalizing international capital flows, and allowing the entry of foreign banks brought deeper and more competitive financial markets. However, this phase was also associated with rapid credit growth, rising asset prices, and external current account deficits that were large by historical standards at around 5 percent of GDP a year in the latter half of the 1980s.

Tightening policies

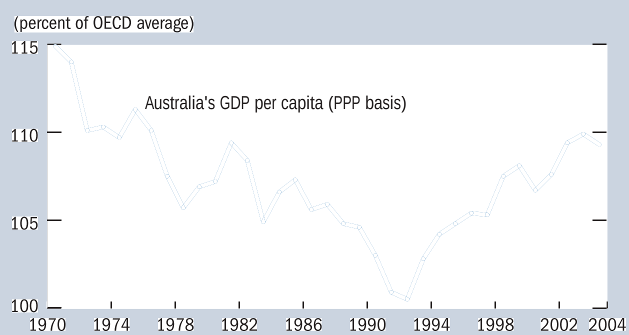
Domestic concern about Australia's external position was a key factor behind public support for policies that would help improve Australia's competitiveness and also raise national savings. For example, initial steps were taken to enhance labor market flexibility by allowing firms to agree to higher wage increases in exchange for productivity improvements, although still subject to centralized approval. Public savings rose substantially, with the overall fiscal balance rising some 5 percentage points of GDP in the five financial years to 1988/89. To help increase private savings, Australia adopted a private pension system in 1993 with mandatory contributions by all employees.

On top of the large fiscal consolidation, the RBA also tightened monetary policy in the late 1980s to moderate inflation, which had persisted at around 7–9 percent in the second half of the 1980s. Against this background, a global economic slowdown led to an unexpectedly severe recession in Australia in the early 1990s. The weakening in banking and corporate sector balance sheets associated with high credit growth likely increased the depth and duration of the recession. In hindsight, stronger financial supervision had been needed, although it is unlikely that this would have fully prevented the side effects of financial deregulation. Indeed, the government strengthened the supervision framework by establishing the Australian Prudential Regulation Authority in 1997.

Second round of reforms

Nonetheless, the 1990–91 recession also provided an opportunity to establish medium-term macroeconomic policy frameworks. Inflation fell below 3 percent by mid-1992, and the RBA adopted an inflation targeting framework for monetary policy in 1993. Since then, consumer price inflation has averaged 2½ percent, consistent with the target of 2–3 per-

Enduring expansion
Incremental and continuous reforms have contributed to a steady increase in Australia's per capita GDP since 1992.



Data: IMF *World Economic Outlook* database.

cent. The RBA pursues this inflation-target on average over the economic cycle, allowing it greater flexibility to take into account implications for employment and economic activity, an approach that some other central banks have since adopted. Similarly, the authorities have aimed their fiscal policy at balancing the budget over the economic cycle since the 1998 enactment of the Charter of Budget Honesty, which commits the government to set out its medium-term fiscal strategy in each budget. Within this framework, the federal government has achieved a surplus in six of the past seven years, and net government debt fell to just 1.3 percent of GDP in mid-2005.

A second round of structural reforms in the mid-1990s was motivated in part by the sharp rise in unemployment in the 1990–91 recession. Labor market reforms adopted in 1993, and most importantly in 1996 under the Workplace Relations Act, changed the award system into a safety net, with most employees bargaining at the enterprise or individual level. By 2004, the wages of only one-fifth of all employees were set by centralized awards, compared with two-thirds in 1990. This allowed greater flexibility in relative wages across sectors and enterprises, and also enhanced businesses' ability to adopt productivity-improving changes in work arrangements. In addition, the competitiveness of the goods market was increased through the National Competition Policy agreed to by state and federal governments in 1995, while reforms of welfare policies, such as the 1996 Mutual Obligation Initiative, have enhanced incentives for the unemployed to take jobs or participate in programs to enhance their employability.

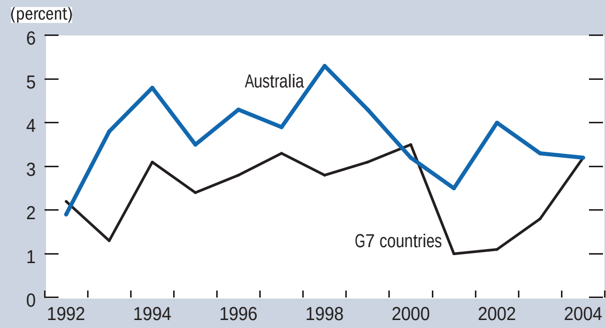
Rewards and lessons

The returns on these reform efforts have been handsome. Australia has enjoyed an uninterrupted economic expansion since 1992, with real GDP growing at an average annual rate of about 3.7 percent (see chart above). As a result, per capita incomes have risen to almost 10 percent above the OECD average. Gains in both productivity and employment have been strong, and unemployment has fallen to 5 percent from almost 11 percent in 1992.

The resilience of the Australian economy has been particularly noteworthy, with the economy shrugging off the impact of the Asian crisis in 1997–98, the global information technology slump in 2000–01, and a severe drought in 2002–03. The floating exchange rate has adjusted to help the economy absorb shocks and has freed monetary policy to promote domestic economic stability, while the automatic fiscal stabilizers have operated fully. Recent research shows that the structural reforms of the product, labor, and financial markets have also contributed to increased macroeconomic stability, by tending to reduce both the scale and impact of shocks.

Outpacing the G7

Overall, Australia's real GDP growth has outperformed average growth of the Group of Seven industrial countries since 1992.



Data: IMF *World Economic Outlook* database.

Australia's success with reforms may offer lessons for other countries. The broad coverage of reforms appears to have been crucial to the strong overall benefits that have been realized: increased domestic and external competition, for example, complemented improved labor market flexibility in driving productivity gains. Positive feedbacks between macro- and microeconomic reforms have been evident, too. By increasing flexibility at the microeconomic level, structural reforms may have eased the task of preserving macroeconomic stability; and enhanced stability due to improved macroeconomic management and exchange rate flexibility has aided Australia in realizing the benefits of structural reforms. It has also provided an economic environment more conducive to public acceptance of further reforms.

Finally, while some countries have pursued a so-called big-bang approach, Australia's reforms have been more incremental, partly in reaction to the failure of a large tariff cut in the early 1970s. The incremental approach is most evident in the labor market and in trade liberalization: spreading adjustment costs over time may have helped Australia sustain its reform efforts over the past two decades. ■

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For more information on Australia, please refer to IMF Country Report No. 05/331 and the Selected Issues Paper No. 05/330. Copies are available for $15.00 each from Publication Services (please see page 332 for ordering details) or on the IMF's website (*www.imf.org*).

Bahamas devises strategy for reform of monetary framework

The Central Bank of The Bahamas (CBB) has long relied on direct credit controls and restrictions on capital flows to manage liquidity, as the depth of the domestic credit market was seen as insufficient to support open market operations. But more recently, it has become concerned about the microeconomic distortions resulting from its direct controls and is reconsidering its monetary framework. For this reason, the IMF recently discussed with the CBB a strategy to set the stage for a successful transition toward market-based instruments of liquidity management in an effort to enhance the role of price signals in allocating financial resources.

The Bahamian dollar has been pegged at par with the U.S. dollar since 1973, and keeping an adequate level of international reserves has been a key objective. The CBB is required to have external assets equivalent to at least 50 percent of its demand liabilities. In practice, since 2003, reserves have been targeted at 100 percent of base money or more, well in excess of the statutory limit. The Monetary Policy Committee (the CBB's monetary policy decision-making body) monitors monetary and bank soundness indicators and takes corrective action if losses of international reserves threaten to put pressure on the exchange rate.

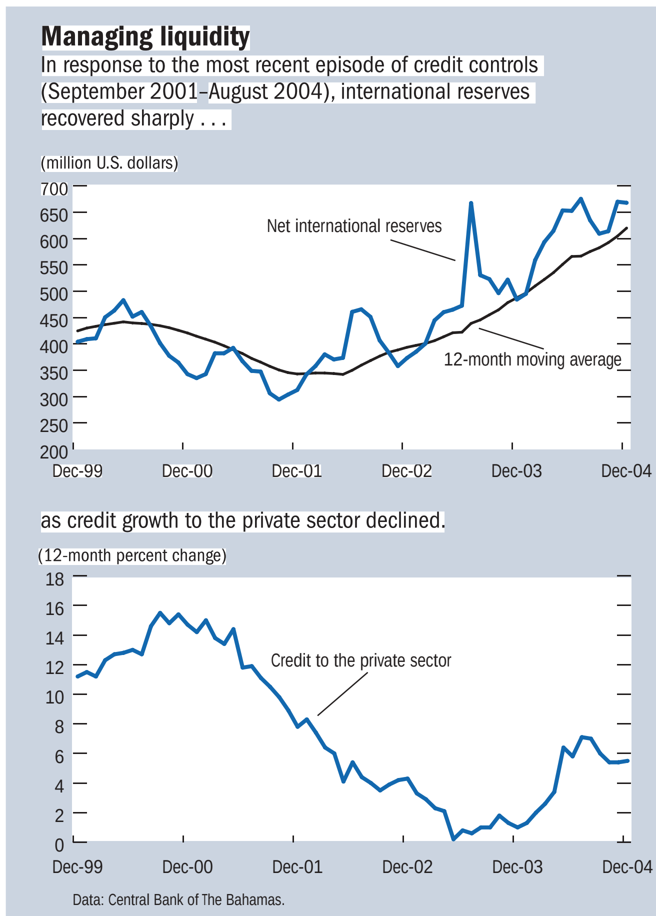
Since the late 1980s, the CBB has been relying on direct credit controls as its main monetary policy instrument, with changes in the discount rate playing a secondary and infrequent role. Credit growth is seen as a key intermediate target given its importance in achieving the Bank's reserve objective through its effects on domestic demand, which is highly import-intensive. During the most recent episode of credit controls (September 2001–August 2004), the CBB introduced a ceiling on bank loans and advances to the private and public sectors, supported both by moral suasion and existing capital controls.

The current framework has worked reasonably well in achieving policy objectives. From September 2001 to end-2003, aggregate bank credit growth gradually declined to near zero, and international reserves recovered sharply from the low level experienced in the wake of the post-September 11 drop in tourism revenues (see chart). A considerable degree of monetary independence was also evident, with domestic interest rates remaining broadly stable, in contrast to the sharp swings in U.S. rates.

The insulation of domestic interest rates from U.S. rates is largely a consequence of exchange controls, but it also reflects a seeming absence of price competition among banks. Eight clearing banks operate in the domestic commercial banking sector, of which one is government-owned, two are locally owned private banks, and five are subsidiaries or branches of foreign banks. In addition there are 11 nonbank financial institutions of a smaller size. Even in the face of large excess bank liquidity, bank deposit and lending rates have been remarkably stable and banks appear not to compete through interest rates. This may be an unintended consequence of the long-standing reliance on credit controls, which have reduced the scope and incentive for banks to gain market shares by adjusting lending rates.

Toward more market-based regulation

Now, however, the authorities are considering steps to deepen domestic financial markets, including by promoting a secondary market for government bonds, revitalizing the Bahamas International Stock Exchange, and increasing the role of market-based interest rates in signaling the cost of funds. The CBB views the creation of a money market as a



component of this reform and is proposing a cautious and gradual liberalization of capital controls. It sees this as a step toward further integrating the country into the global economy, increasing competition in the banking sector, and giving citizens broader investment opportunities. A number of issues will need to be addressed, however, for this strategy to be successful.

At present, the supply of domestic short-term financial instruments is limited, and a majority of domestic currency transactions are intermediated through domestic banks. While the CBB auctions government treasury bills, there is a legal ceiling on the amount outstanding. There are almost no secondary market transactions in government securities, as holders tend to keep them in their portfolios until maturity. This is in part because government securities are held by financial institutions to meet their liquid asset ratio requirements and because of a lack of alternative investment choices available to public and private pension funds.

Structural excess bank liquidity and relatively predictable liquidity needs have reduced the scope and need for interbank transactions. Indeed, excess bank reserves sharply increased during 2004 and early 2005, as strong external inflows outpaced the private sector's capacity to borrow. At the same time, there do not appear to be other institutions in The Bahamas with significant short-term liquidity management needs that might help foster the development of a market for short-term instruments. This situation could prove an obstacle to the development of a vibrant money market that would yield market-based short-term interest rates.

Looking forward, consideration could be given by the CBB to establishing a formal operational target either for the supply of reserve money or for interest rates. For countries with relatively shallow financial markets and capital controls, best practice is for the central bank to signal its intentions by targeting reserve money. Countries tend to adopt interest rate targets at a later stage once domestic financial markets deepen and a market-based vehicle can be developed so that the central bank can signal its interest rate objective.

A possible reform strategy

A transition to more market-based monetary policy instruments is expected to be part of a broader long-term strategy to modernize and open up the financial sector. While this process would need to proceed in a careful and well-sequenced manner, there is scope for the CBB to begin to introduce market-based policy instruments to manage excess bank liquidity. Key considerations include:

- Unremunerated reserve requirements are a tax on the banking sector and raising them should remain an option of last resort.
- Preferable would be instruments that would allow a continuous CBB presence in the money market.
- The CBB will need the capacity to forecast market liquidity.
- The CBB should be able to conduct monetary policy without imposing a financial burden on the central bank and inhibiting its independence.

On this basis, the CBB has available a number of options to develop market-based policy instruments, but each presents challenges:

Issue the CBB's own paper for open market-type operations. Experience in other countries, however, suggests this approach can result in central bank losses and could eventually require the government to recapitalize the central bank.

Conduct open market operations using treasury bills. A complication with this approach is that, owing to a legal ceiling on the amount outstanding, the supply of these bills may not be adequate to ensure their market liquidity or enable the central bank to acquire a sufficient stock.

Introduce auctions of short-term central bank deposits (to withdraw liquidity) and repurchase/reverse repurchase agreements of government securities (to withdraw or inject liquidity). A key consideration with this approach is that the central bank's portfolio of marketable securities is fairly small, so consideration could be given to securitizing CBB's advances to the government as well as its portfolio of government bonds. Under this approach, the maturity of repurchase agreements would be shorter than that of the underlying instrument, which would help clearly differentiate these transactions from government financing.

In all such cases, consideration would also have to be given to the desired structure of the money market. This would include defining the CBB's counterparties—that is, the institutions with which the CBB would transact on a regular basis (which could include all clearing banks or a restricted set of primary dealers). The CBB's role as a lender of last resort for its money market counterparties would also need to be reviewed, which could involve a streamlining of its existing standing facilities to ensure that they were solely accessed by counterparts at penalty rates. ■

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This article is based on IMF Country Report No. 05/224, *The Bahamas: Selected Issues and Statistical Appendix*. Copies are available for $15.00 each from IMF Publication Services. Please see page 332 for ordering details. The full text is also available on the IMF's website (*www.imf.org*).

Special agricultural safeguards: Lessons for the Doha Round

In the World Trade Organization's (WTO) current Doha Round of trade talks, negotiators are discussing the future of the special agricultural safeguards that were introduced in the Uruguay Round. These safeguards allow certain WTO members to levy an additional duty on selected agricultural imports so as to protect local producers from the effects of a temporary drop in the price of these imports or a surge in their quantity. At the same time, negotiators have agreed to create a special safeguard mechanism—along the lines of the special safeguards—for use solely by developing countries for agricultural imports. A new IMF Working Paper draws lessons from the experience with agricultural safeguards for the design of the proposed mechanism.

One of the aims of the Uruguay Round's Agreement on Agriculture was to improve market access for agricultural products by encouraging WTO members to convert their nontariff barriers (such as quotas and imports bans) into tariffs. Some countries, however, feared that this reform would trigger domestic market disruptions. WTO members therefore agreed that those members "tariffing" their nontariff barriers could invoke the special safeguard.

At first glance, the impact of the special safeguards appears limited, given that only 39 WTO members are eligible to invoke them on only a small portion of their agricultural imports (see box), and only 14 of these eligible members (Barbados, Costa Rica, Czech Republic, the European Community (EC) 15, Hungary, Japan, Korea, Nicaragua, Philippines, Poland, the Slovak Republic, Switzerland, Taiwan Province of China, and the United States) have actually implemented them. In fact, however, the safeguards have become a protectionist device for several reasons:

Lack of transparency. Since their creation 10 years ago, about 1,500 special agricultural safeguards have been reported to the WTO. The number of safeguards actually implemented, however, has been much higher: although WTO rules require countries to report their special agricultural safeguards at the time of implementation, many do so with a substantial lag. As of mid–2005, for example, the Republic of Korea, the EC, and the United States had not reported special agricultural safeguards they had been implementing since 2001, 2002, and 2003, respectively. These three WTO members accounted for more than 70 percent of all the special agricultural safeguards notified during 1995–2000.

These safeguards also lack transparency because the additional duty is difficult to estimate. WTO rules do not require countries to report the additional duty, and only Costa Rica, Nicaragua, and the Slovak Republic have done so. It appears that in these cases, the additional duty was substantial: 24 percent on average, adding to an already high tariff of 43 percent.

Total tariffs can exceed the bound rate. Special agricultural safeguards effectively allow the imposition of a total tariff higher than the bound tariff (the maximum tariff on an import to which a WTO member commits itself). Exceeding the bound rate can also occur with regular safeguards, but these tend to be less damaging because they are rarely invoked. About 150 regular safeguards were invoked during the 50 years of the General Agreement on Tariffs and Trade, while 10 times as many special agricultural safeguards have been implemented over 10 years. The latter are more frequently used as they are easier and cheaper to invoke because no proof of injury or compensation is required.

Extended use. Examples of extended use of special agricultural safeguards are plentiful. Perhaps the most obvious case is Hungary, which imposed a continuous safeguard on sugar from the end of May 1999 through the end of April 2004 when the country joined the EU. This continuous use violates the spirit of the Agreement on Agriculture, which intended the safeguards to be used to cope with temporary shocks, not as a long-term protectionist device.

Sensitive commodities. Special agricultural safeguards invoked by the EC, for example, cover only about 5 percent of

Special safeguards: who has reserved the right?

Among the World Trade Organization's 148 members, 39 currently reserve the right to use a total of 6,156 special safeguards on agricultural products. The numbers in parentheses show how many products are involved, although the definition of what is a single product varies.

Australia (10)	Iceland (462)	Philippines (118)
Barbados (37)	Indonesia (13)	Poland[1] (144)
Botswana (161)	Israel (41)	Romania (175)
Bulgaria (21)	Japan (121)	Slovak Republic[1] (114)
Canada (150)	Korea (111)	South Africa (166)
Colombia (56)	Malaysia (72)	Swaziland (166)
Costa Rica (87)	Mexico (293)	Switzerland-Lichtenstein (961)
Czech Republic[1] (236)	Morocco (374)	Taiwan, Province of China (84)
Ecuador (7)	Namibia (166)	Thailand (52)
El Salvador (84)	New Zealand (4)	Tunisia (32)
European Community 15[1] (539)	Nicaragua (21)	United States (189)
Guatemala (107)	Norway (581)	Uruguay (2)
Hungary[1] (117)	Panama (6)	Venezuela (76)

[1]The table describes the situation prior to the 2004 enlargement of the European Union. The 10 new European members are implementing the European trade policy, including its special agricultural safeguards.
Data: World Trade Organization.

its imports of agricultural goods, but affect virtually all of its imports of sugar.

Further protection for already sheltered commodities. The commodities for which countries invoke special agricultural safeguards also often benefit from substantial subsidies. The OECD estimates, for example, that the EC's total support for sugar amounted to 51 percent of total gross farm receipts over 1999–2001.

Special agricultural safeguards also provide additional protection to commodities already sheltered by specific and seasonal duties. Virtually all tariff lines for which the EC has reserved the right to invoke special safeguards are protected by mixed or specific duties, which are often very high. The WTO estimates, for example, that the ad valorem equivalent of the EC specific duty on beet sugar reaches 114.4 percent. This is not unique: Japan can invoke the special agricultural safeguards on 56 percent of the tariff lines it protects with specific or mixed tariffs.

In addition, special agricultural safeguards magnify the protectionist impact of tariff-rate quotas—a combination of an import tariff and an import quota in which imports below a specified quantity enter at a low (or zero) tariff and imports above that quantity enter at a higher tariff. The EC, for instance, has reserved the right to invoke special agricultural safeguards for 90 percent of agricultural tariff lines protected by a tariff-rate quota, and virtually all special agricultural safeguards invoked by the United States are on agricultural products protected by tariff-rate quotas. Since the additional duty can be imposed only on over-quota imports, the special safeguard further increases the protectionist impact of tariff-rate quotas. In 2002, the EC's over-quota average tariff for agricultural goods was 2.6 times higher than the average bound tariff; that of the United States was 4.3 times higher.

Finally, some economies such as Japan and Taiwan Province of China invoke special agricultural safeguards on products for which there are no imports. This is clearly protectionism because if there are no imports, there cannot be an import surge and changes in world prices cannot disrupt domestic markets.

Lessons for the Doha Round

The exploitation of loopholes in the design of special agricultural safeguards—including the absence of a requirement to justify the use of the safeguard or to provide compensation for its abuse—has transformed these safeguards into protectionist devices. Designed to facilitate liberalization, they have in reality been used to protect a few commodities in an opaque manner. For this reason, the Working Paper argues, they should be eliminated. To prevent the special safeguard mechanism from being riddled with the same pitfalls, negotiators should be guided by these main objectives:

The additional tariff should be ad valorem, that is, specified as a percentage of the value of the good being taxed, and nondiscriminatory. The use of quantitative restrictions proposed by some WTO members should be rejected. Quantitative restrictions would jeopardize one of the main achievements of the Uruguay Round: converting nontariff barriers into ad valorem tariffs. Moreover, they would make the special safeguard mechanism more costly to manage, less transparent, and easier to use as a protectionist device.

The mechanism should be used to address only large, sudden, and temporary shocks. Limiting the use of special agricultural safeguards to temporary shocks necessitates the rejection of proposals that insulate the agricultural sector from long-term trends and limit, for each product, the number of successive years the safeguard can be invoked. Proof of injury can also be requested to ensure that the mechanism deals with only large and sudden shocks. The proof of injury would need to be simpler than the one required for regular safeguards; otherwise there would be no justification to create a new mechanism. This would also avoid the use of the mechanism to prevent access to closed markets.

Transparency requirements should be enforced. Transparency is crucial for a safeguard mechanism especially when it is for the use of developing countries whose customs administrations may face problems of poor governance. A nontransparent implementation of the additional duty would complicate valuation problems, promote bribery, and undermine progress in trade facilitation.

Of course, negotiators will face trade-offs. Although they have agreed that the special safeguard mechanism will be for the use of developing countries only, country eligibility remains unclear. Are all developing countries eligible, or only some? Country eligibility will also affect product coverage. If most developing countries are eligible, then product coverage needs to be limited. Otherwise, the special safeguard mechanism may undermine liberalization commitments, and its welfare gains and their positive impact on poverty could vanish. ■

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Copies of IMF Working Paper No. 05/131, *Special Agricultural Safeguards: Virtual Benefits and Real Costs—Lessons for the Doha Round,* by Jean-Jacques Hallaert, are available for $15.00 each from IMF Publication Services. Please see page 332 for ordering details. The full text is also available on the IMF's website (*www.imf.org*).

Does it matter who provides aid?

The debate over aid effectiveness continues unabated, but the economic literature has so far focused almost exclusively on official bilateral aid. Nongovernmental organizations (NGOs), however, account for a growing share of development assistance, and the proponents of NGO aid argue that it is allocated for the "right" reasons and is distributed directly at the grassroots level. Therefore, NGO aid is considered untainted by the two sins commonly attributed to official bilateral aid—namely, that it is given for political reasons unrelated to development and that recipient governments misuse it.

But are NGOs truly more effective than official bilateral donors? A recent IMF Working Paper by Nadia Masud and Boriana Yontcheva sidesteps the question of whether aid boosts economic growth to take a closer look at aid's contribution to improving human and social welfare. The research examines the effects of aid on two indicators—infant mortality, for health, and adult illiteracy, for education—to determine whether aid has had a positive effect and whether NGO aid has been more effective than official aid.

To date, the only studies on NGO aid effectiveness have been conducted at the project level. There is a good reason for this—NGOs are private organizations and highly diversified, and there are no data sets covering all aid flows from all international NGOs.

The Working Paper focused on available data from 1990 to 2001 for projects proposed by European NGOs and cofinanced by the European Union. These are imperfect data. The number of countries varied from regression to regression—owing to missing observations for key variables, including female illiteracy, levels of governance and rural development, development as measured by real GDP per capita, poverty headcount, and population growth rate. Nevertheless, they afforded the opportunity for a first effort at measuring the impact of NGO aid at the macroeconomic level.

NGO effectiveness

The Working Paper turned up mixed results, but an overall advantage for NGO-provided aid. The analysis found that a statistically significant improvement in infant mortality was associated with increases in NGO aid but that no such effect was apparent with increased bilateral aid. In the case of adult illiteracy, however, increases in neither NGO nor bilateral aid seem to have brought about an improvement, although the 10-year time period covered by the data may be too short to pick up such an effect.

The analysis also found that neither bilateral nor NGO aid affected the share of government spending on health care.

Stephen Jaffe/IMF

A significant decline in infant mortality rates has been associated with increases in NGO aid.

For official aid, this suggests that recipient governments may use foreign aid to reduce their own health-care efforts. For NGO aid, however, this is good news, as it suggests that NGO aid may actually increase the total resources available for poverty reduction.

A number of factors may be at work in these findings. First, as their proponents claim, NGO aid may be more effective than government actions in reaching the poor. Improving infant mortality through health-care initiatives may, in fact, be more effectively done at the grassroots level. The study also finds that NGO aid per capita is above average for countries with above-average infant mortality and adult illiteracy, while the opposite is true of official bilateral aid. This suggests that while reaching the Millennium Development Goals may today be a declared objective of official aid, aid allocation patterns may not be consistent with it.

Finally, from a policy perspective, if infant mortality is a good flash indicator of the living conditions of the poor, NGO aid does appear to be more effective in reaching vulnerable populations, and donors that channel their aid through NGOs seem to have made the right choice. Remaining for future research is the question of whether NGOs can readily scale up their aid and remain effective. ■

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IMF Institute

Copies of *"Does Foreign Aid Reduce Poverty? Empirical Evidence from Nongovernmental and Bilateral Aid,"* by Nadia Masud and Boriana Yontcheva, are available for $15.00 each from IMF Publication Services. Please see page 332 for ordering details. The full text is also available on the IMF website (*www.imf.org*).

Stand-By, EFF, and PRGF arrangements as of September 30

Member	Date of arrangement	Expiration date	Amount approved	Undrawn balance
			(million SDRs)	
Stand-By				
Argentina	September 20, 2003	September 19, 2006	8,981.00	4,810.00
Bolivia	April 2, 2003	March 31, 2006	171.50	60.00
Bulgaria	August 6, 2004	September 5, 2006	100.00	100.00
Colombia	May 2, 2005	November 2, 2006	405.00	405.00
Croatia	August 4, 2004	April 3, 2006	97.00	97.00
Dominican Republic	January 31, 2005	May 31, 2007	437.80	385.26
Macedonia, FYR	August 31, 2005	August 30, 2008	51.68	41.18
Paraguay	December 15, 2003	November 30, 2005	50.00	50.00
Peru	June 9, 2004	August 16, 2006	287.28	287.28
Romania	July 7, 2004	July 6, 2006	250.00	250.00
Turkey	May 11, 2005	May 10, 2008	6,662.04	6,106.87
Uruguay	June 8, 2005	June 7, 2008	766.25	704.95
Total			**18,259.54**	**13,297.53**
EFF				
Serbia and Montenegro	May 14, 2002	December 31, 2005	650.00	62.50
Sri Lanka	April 18, 2003	April 17, 2006	144.40	123.73
Total			**794.40**	**186.23**
PRGF				
Albania	June 21, 2002	November 20, 2005	28.00	0.00
Armenia	May 25, 2005	May 24, 2008	23.00	19.72
Bangladesh	June 20, 2003	December 31, 2006	400.33	184.55
Benin	August 5, 2005	August 4, 2008	6.19	5.31
Burkina Faso	June 11, 2003	August 15, 2006	24.08	6.88
Burundi	January 23, 2004	January 22, 2007	69.30	28.60
Chad	February 16, 2005	February 15, 2008	25.20	21.00
Congo, Republic of	December 6, 2004	December 5, 2007	54.99	39.27
Democratic Republic of the Congo	June 12, 2002	March 31, 2006	580.00	26.53
Dominica	December 29, 2003	December 28, 2006	7.69	3.48
Georgia	June 4, 2004	June 3, 2007	98.00	56.00
Ghana	May 9, 2003	October 31, 2006	184.50	79.10
Guyana	September 20, 2002	September 12, 2006	54.55	18.52
Honduras	February 27, 2004	February 26, 2007	71.20	40.69
Kenya	November 21, 2003	November 20, 2006	225.00	150.00
Kyrgyz Republic	March 15, 2005	March 14, 2008	8.88	7.62
Malawi	August 5, 2005	August 4, 2008	38.17	32.75
Mali	June 23, 2004	June 22, 2007	9.33	6.67
Mozambique	July 6, 2004	July 5, 2007	11.36	6.50
Nepal	November 19, 2003	November 18, 2006	49.91	35.65
Nicaragua	December 13, 2002	December 12, 2005	97.50	41.78
Niger	January 31, 2005	January 30, 2008	6.58	5.64
Rwanda	August 12, 2002	February 11, 2006	4.00	0.57
São Tomé & Príncipe	August 1, 2005	July 31, 2008	2.96	2.54
Senegal	April 28, 2003	April 27, 2006	24.27	13.86
Sri Lanka	April 18, 2003	April 17, 2006	269.00	230.61
Tajikistan	December 11, 2002	February 10, 2006	65.00	9.80
Tanzania	August 16, 2003	August 15, 2006	19.60	5.60
Uganda	September 13, 2002	December 31, 2005	13.50	2.00
Zambia	June 16, 2004	June 15, 2007	220.10	49.52
Total			**2,692.18**	**1,130.76**

EFF = Extended Fund Facility.
PRGF = Poverty Reduction and Growth Facility.
Figures may not add to totals owing to rounding.
Data: IMF Finance Department.

IMF promotes transparency, safeguards candor

Over the past decade, the IMF has taken a number of steps to enhance its transparency and release more information about its members' policies. In 2001, to spur the release of more information about the IMF's work, its Executive Board decided to allow publication of country documents on a voluntary basis (meaning with the consent of the country concerned) and more systematic publication of policy papers and associated Public Information Notices. That decision also defined safeguards—such as rules allowing deletions of highly market-sensitive material—to maintain frank policy discussions with members and help strike an appropriate balance between transparency and confidentiality. In a September 2003 review of the Fund's transparency policy, to provide further impetus, the Board endorsed a move to a policy of voluntary-but-presumed publication for most reports. All staff reports and members' policy intention documents (such as letters of intent relating to IMF-supported policy programs) and most policy papers now fall under this regime.

Massoud Etemadi/IMF

Recent trends

How has this worked? In a June 2005 review, the Board welcomed the continued rise in publication rates, which had reached 77 percent of all country staff reports, and the narrowing of regional disparities, with substantially more emerging-market and developing countries now publishing their reports. At the same time, Directors expressed concern about longer average time lags between the Board discussion and publication, and noted that extensive document modifications—deletions and substantive corrections—have, in some cases, had adverse consequences for the timeliness of publication and staff resource requirements.

Most Directors believed that increased publication had not led to a significant erosion of candor. A few, however, felt that the staff review paper did provide evidence of a loss of candor. Directors in general viewed candid policy dialogues between IMF staff and members, and frank information in staff reports to the Board, as critically important. In this regard, several reiterated that member countries must remain assured that the IMF is upholding its primary role as confidential policy advisor and that publication does not undermine confidence in this relationship.

Operational policy changes

What is the appropriate response to recent trends? In considering staff recommendations for more timely publication, preserving candor, and reducing implementation costs, a majority of the Board saw merit in clarifying the criteria and procedures for document modification and introducing incentives for prompt publication. Directors also reaffirmed the strict prohibition on negotiating staff reports with country authorities, given the Fund's unique mandate in surveillance and use of Fund resources. Similarly, they stressed that document modifications should not be used to promote publication and that prolonged negotiations on such modifications should generally be avoided. At the same time, Directors encouraged staff to maintain a close working relationship with country authorities and represent their views fairly and accurately in staff reports.

Some Directors underscored that transparency should not be equated with the publication of IMF documents. In their view, a more important kind of transparency was that practiced by country authorities, including through the timely, and widely accessible, publication of data, and the dissemination of information on, and the rationale for, policy decisions and intentions. ■

For more information, refer to IMF Public Information Notice No. 05/116 on the IMF's website (*www.imf.org*).

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