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Contents



*Interview with* IMF Survey

# Camdessus discusses prospects for globalization, need to fight "patent injustice" of world poverty

*IMF Managing Director Michel Camdessus recently spoke with the editors of the* IMF Survey *about events over the past 13 years, as well as about future developments in the international monetary system and the evolution of the IMF. The interview will be published in two parts—the first, which follows, focuses on developments since 1987. The second part, which looks to the future, will be published in the next issue of the* IMF Survey, *dated January 10, 2000.*

Camdessus: "Much has been achieved, but a solution to the problem of poverty in the developing countries has eluded us."

IMF SURVEY: *What do you see as the most important achievements of your nearly three terms of office?*

CAMDESSUS: It would be presumptuous of me to put my name on any achievement of the IMF during that period. The sense of pride I feel is the same as any member of the staff or the Executive Board must feel at the end of their careers here. It is the pride and gratitude for having been called to serve the IMF throughout an eventful 13 years.

I believe that the IMF has contributed substantially to the present favorable economic climate. Most important, inflation—which rose in the 1970s and 1980s—is now as low as at any other time in the postwar period. Containing inflation—which I have called the most cruel tax on the poorest countries—is a solid achievement, and the advice and program support provided by the IMF have helped bring this about.

Fiscal balances, which deteriorated during the 1970s and 1980s, have now—owing very often to IMF advice—improved in many countries.

The IMF also played its part in resolving the debt crisis of the 1980s. Although all debt problems are far from resolved, it has been satisfying to be able to help a large number of countries bring their debt to a more sustainable level.

In the meantime, I have also been happy to see a consensus emerging that we should no longer consider growth as a purely quantitative concept but rather as embodying qualitative elements and goals, all of which are encapsulated in the code words "high-quality growth" that we have tried to popularize. We have progressively taken steps forward to establish these objectives.

The globalization of financial markets—while it has benefited global growth, especially in the longer term—has contributed in recent years to several crises that the IMF has helped countries to tackle. While the crisis countries are now recovering, work on the challenge of actually preventing crises is still very much in progress.

After the collapse of the Berlin Wall 10 years ago, the IMF was privileged to play a role in helping the countries of Eastern Europe and the former Soviet Union make the difficult transition to a market economy, with the increased freedoms and responsibilities that this move entailed. This was an immense challenge, but there has now been progress in many countries.

Much has been achieved, although much still remains to be done. Above all, a solution to the problem of poverty in developing countries has eluded us. Success has been only

(Please turn to the following page)

**We know all too well about the risks, but globalization also holds the promise of improved living standards for all the peoples of the world.**
**—Camdessus**

*(Continued from front page)* limited, despite a major expansion of the IMF's work in this area during my tenure. We now look forward to seeing the results of the new approach adopted at the 1999 Annual Meetings, and I welcome the growing global consensus that the issue of poverty alleviation—a pressing human concern—should be brought into the heart of our policies.

IMF SURVEY: *Since you came to the IMF in 1987, a number of far-reaching events have affected the global economy. Among the more conspicuous examples are the breakup of the former Soviet Union and the crises in Mexico and East Asia. How would you assess these events and their impact?*
CAMDESSUS: The breakup of the former Soviet Union, followed by the membership of the successor states in the IMF, may well be the most momentous event of our time. For the IMF, it has meant that, for the first time, we have achieved the goal of our founding fathers of a truly universal institution. At the same time, the IMF had to face the great challenges of helping to guide these countries in the transition to a market economy—that is, to an economy of freedom and responsibility. Of course, there have been many problems along the way, but we should not fail to take account of the remarkable progress that has been made by these new democracies. President Vaclav Havel of the Czech Republic expressed that admirably recently when he said, "Myriad difficulties emerged as we reconstituted and developed political pluralism, engaged in the pursuit of a genuine rule of law, built up democratic institutions, and proceeded to transform a wholly nationalized economy into a free-market economy."

The Mexican crisis and, more recently, the Asian crisis were unlike any previous crises. They exploded on the international capital markets and quickly took on systemic proportions, which could only be checked by the immediate mobilization of massive financing. Dealing with them meant dealing with a threefold problem: macroeconomic imbalances, coupled with massive capital outflows; an acute crisis in the financial sector stemming from weak institutional and banking practices; and a more fundamental crisis in the economic management model—relations among corporations, banks, and governments—that conflicted with the demands of the new, globalized economy.

What are the lessons of these crises? First, a crisis in any country, large or small, can quickly become systemic through contagion on the global markets; for this reason, domestic policy must take account of its potential worldwide impact. Second, all governments should follow the precepts of excellence in managing their economies. This means rigor and transparency in overall economic management; growth that is centered on human development; and the necessary reforms of state institutions to improve efficiency, introduce appropriate regulations, emphasize the rule of law, and fight corruption.

IMF SURVEY: *In recent years, the concept of globalization has come to the fore. How would you respond to critics who assert that globalization has failed to alleviate the problems of the poorest countries?*
CAMDESSUS: As is the case with all human realities, globalization brings with it both risks and opportunities. We know all too well about the risks, but globalization also holds the promise of improved living standards for all the peoples of the world. To build an effective globalized system, it is necessary, first, to correct many of the flaws of the present system. These include inadequate financial information, weak financial and banking institutions, poorly managed capital markets, inadequate involvement of the private sector, a lack of governance, *and* a global system that allows extreme poverty and inequality to persist. But it is true that our record so far in alleviating poverty is far from acceptable.

There is no single more important challenge than to humanize globalization, which means, first and foremost, to succeed in the fight against extreme poverty. There are two dimensions to this fight: one national, the other international. Domestically, the poor will need to generate high-quality growth, and that must be the dominant concern. There is, however, a vital relationship between growth and social development. Strong social policies that attack poverty at its roots lay the foundation for sustained economic growth.

IMF SURVEY: *Did you not speak recently about a "circular relationship" in this area?*
CAMDESSUS: Yes. We have known for a long time that sound monetary and macroeconomic policies can promote poverty reduction. But it is now also much better understood and acknowledged that the effect also runs in the other direction—in a true circular way. For the

## Selected IMF rates

| Week beginning | SDR interest rate | Rate of remuneration | Rate of charge |
|---|---|---|---|
| November 22 | 3.77 | 3.77 | 4.29 |
| November 29 | 3.78 | 3.78 | 4.30 |
| December 6 | 3.79 | 3.79 | 4.31 |

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

discipline of a strong monetary policy to be maintained long enough to eradicate inflation and to contribute to sustainable growth, it must be implemented in a context in which government policies include three objectives: the fight against poverty, the adoption of appropriate safety nets, and a recognized effort to reduce severe inequalities in income distribution over time.

By giving legitimacy to 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 effects. In a word, it is clear that no poverty reduction can be achieved in a sustained way without sound monetary policy. But we can see also that no sound monetary policy can be sustained if, as Nobel prize winner Amartya Sen put it, "patent injustice" is left unaddressed.

This is why the fight against poverty has gained center stage in our programs, is being developed hand in hand with our work on the international monetary and financial architecture, and has justified recent major changes in our strategies.

IMF SURVEY: *The IMF has recently taken a number of steps to alleviate the condition of the poorest countries, through the establishment of the Poverty Reduction and Growth Facility and the enhanced HIPC Initiative. How would you assess the progress that has been made so far? What major challenges remain to be tackled?*

CAMDESSUS: The transformation of the Enhanced Structural Adjustment Facility into the new Poverty Reduction and Growth Facility is central to our involvement in the fight against poverty. It incorporates our more than ten years of experience in this area, a new level of cooperation with the World Bank, new steps for debt reduction, and an explicit link for poverty reduction.

A key feature of the new facility will be for countries to formulate their own comprehensive growth-oriented policies to reduce poverty. After open discussions with civil society (and this, I must stress, is a new element in our approach), these policies will be articulated in the form of Poverty Reduction Strategy Papers [PRSPs], with support from both the IMF and the World Bank. Since the Bank will base its IDA [International Development Association] operations on the same policies as are set out in these papers, we will be able to create a far greater degree of synergy between the operations of the IMF and the Bank.

Another element in this new focus on social objectives at the heart of our programs is the deeper, faster, and broader debt relief that is being provided by the enhanced Initiative for the Heavily Indebted Poor Countries (HIPCs). A stronger framework has been established that makes HIPC debt relief an integral part of broader efforts to reduce poverty, which are articulated in a country's PRSP. I am delighted that agreement has been reached to move forward with this and hope that the necessary financing will soon be in place.

IMF SURVEY: *Some critics have questioned why the IMF has made poverty reduction one of its objectives and claim that the institution is becoming overextended and is impinging on the concerns of the World Bank. Are there dual roles for the IMF and the Bank in this area?*

CAMDESSUS: Far from there being conflict between the IMF and the World Bank in the area of poverty reduction, as I have just explained, this has been an outstanding example of cooperation between the two institutions. In both the Poverty Reduction and Growth Facility and the HIPC Initiative, we have established new levels of cooperation with the Bank, and each institution brings its unique expertise to this work. In both these areas, we look forward to a continuing deepening of cooperation with the Bank and with the regional development banks, as well as with donors, official agencies, and civil society. This strong cooperation is the best way to allow each of the two institutions to concentrate on its areas of comparative advantage.

*Camdessus: "There is no single more important challenge than to humanize globalization."*

Why should the fight against poverty be a concern of the IMF? First, I would note that Article I of the IMF's Articles of Agreement calls for the IMF to "contribute...to the promotion and maintenance of high levels of employment and real income." Poverty is the antithesis of this objective. Second, it is increasingly being recognized that, just as poverty hampers growth, reducing poverty contributes to sustainable growth.

IMF SURVEY: *The growing number of activities that are the concern of the IMF have at times severely strained resources. Do you see any resolution to this dilemma in the way the IMF operates?*

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CAMDESSUS: In recent years, the IMF has been asked to undertake an increasing number of tasks at the behest of our members. I have been proud of the way in which the staff has responded to these new demands. At the same time, I must stress that, in responding to these calls, the IMF is not deviating from its mandate. I would say that it is only obeying its original purposes, spelled out in Article I of the Articles of Agreement. This Article implies a distinct expansion of the range of the tasks we must perform. The membership trusts us to do this. We must respond and adapt ourselves and our methods accordingly.

The IMF has always prided itself on being a relatively small and lean organization, with a short chain of command. In recent years, as the membership has increased and our responsibilities have expanded, we have added staff to undertake these new responsibilities. I and my colleagues in senior management monitor carefully the workload facing the staff to ensure that this increased workload does not become unmanageable.

This said, I know that there is, here and there, some nostalgia for a mythical "good old Fund," limited to a narrow scope of concerns, concentrating on monetary aggregates and the current account of the balance of payments. This would obviously be a recipe for irrelevance in today's world.

**We have tried to be a little more outspoken recently, explaining more and more what we are doing.**
**—Camdessus**

IMF SURVEY: *What has been the impact on the operations of the IMF of European Economic and Monetary Union [EMU] and the establishment of a European Central Bank?*

CAMDESSUS: European Economic and Monetary Union is one of the most important and promising developments in the international monetary system in recent decades. For its members and prospective members, EMU provides the incentives to strengthen domestic economic policies and to begin addressing deep-rooted structural problems. For the European Union, EMU reinforces monetary stability and cements economic integration. And for the world as a whole, EMU provides a strong new pillar for the monetary system. With the euro joining the dollar and the yen as important reserve currencies, we are now operating in what may be called a tripolar world. The introduction of the euro as a common currency, together with the establishment of the European Central Bank, brings immediate economic benefits (such as lower transaction costs and increased competition) that are already becoming evident.

The IMF welcomes the advent of EMU and has certainly not been marginalized as a result of its creation. The European Central Bank participates as an observer in all our major meetings, and we will continue to exercise our surveillance responsibilities through our annual consultations with our European members as well as through such regional bodies as the European Central Bank and the European Commission. I am confident that we will also continue to enjoy the full cooperation of the European authorities in a constructive dialogue in tackling any problems that we jointly face.

IMF SURVEY: *One major change during the past 13 years has been the progressively higher profile that the IMF has assumed in the mind and eye of the general public. Do you think the increasing visibility of the IMF is a good development, and how can the institution best meet the challenge of publicity—both good and bad?*

CAMDESSUS: I have complained for some time about how the IMF has assumed the role of scapegoat. We have discovered that this role has hampered our ability to discharge our responsibilities and has obscured our members' perception of the good things we could do for and with them. So, we have tried to be a little more outspoken recently, explaining more and more what we are doing.

But this did not at first lead to our developing a modern communication policy—that is, a strategy of proactive actions to disseminate our message. It is only very recently that we realized that the conventional interpretation of our purposes might not be serving us well. It was then that we decided to develop a different communication policy—a step that I view with enormous satisfaction. And, of course, we are applying to ourselves the same golden rule of transparency that we have been preaching to the world.

This being said, we will never be seen as a very popular institution. Why? Fundamentally, because, in general, we work on behalf of economic rationality, and rationality is not the most attractive of qualities in human and social life. But on a deeper level, we will never be very popular because we are serious about country ownership of policies and programs. When a country adopts a policy and implements it with determination and succeeds, it is the country that declares victory—not the IMF, even though we may have played some part in this success. So the rule is, others claim success, while we must recognize our mistakes. This is not a recipe for popularity. I think the staff and the institution have learned to live with this fact of life, but I believe we still have everything to gain from a more proactive communication strategy. ■

## IMF Board issues statement on selection process

In a press release issued on November 23, the IMF Executive Board announced that it had met to begin the process of selecting the next Managing Director.

"This is still an early stage in what will be a very important decision," according to the release. "The Board discussed the exceptional qualities the next Managing Director will require. The process of choosing the best person for the job from the possible candidates will, through the Board, involve all the members of the IMF."

*The text of Press Release No. 99/56 is available on the IMF's website: www.imf.org.*

# Board receives report on Russian program; structural benchmarks remain to be met

*IMF Managing Director Michel Camdessus reported to the IMF Executive Board on December 6 on the status of Russia's economic program. (The full text of News Brief 99/81, issued on December 7, is available on the IMF's website: www.imf.org.)*

"We have been examining the progress made by Russia in the implementation of its economic program," Camdessus said. "Important progress has been made on the macroeconomic side. In particular, program expectations have been exceeded regarding economic growth, the containment of inflation, the fiscal balance, and international reserves.

"On the structural side, there has also been some progress. However, a number of structural benchmarks set for end-September 1999 remain to be met. When these remaining issues have been satisfactorily resolved, I expect to recommend completion of the review to the Executive Board," he said.

The structural benchmarks for end-September 1999 that remain to be completed are items 4, 5, 6, 8, 9 (see below), based on Table 3 of Russia's Letter of Intent, released on July 13 (http://www.imf.org/external/np/loi/1999/071399.HTM).

### Structural benchmarks

1. Implement a system of preapproval of all federal contracts; all obligations lacking such approval will be declared invalid. This preapproval will rely on a reporting system monitoring the amount of registered contracts against budget limits on an ongoing basis, with all contracts that exceed federal budget spending limits being denied.
2. Verify and restructure all budgetary arrears from previous years.
3. Submit amendments to the Duma on the Law on Banks and Banking to require lending institutions to make annual public disclosure of banks' key financial indicators, such as capital adequacy ratios and provisions against bad assets; income statements to be introduced by December 31, 1999, for fiscal year 1999; to have annual accounts prepared and audited by a qualified firm; and to publish quarterly reports.

*4. Increase cash collection rates for electric power, district heating, and natural gas to 35 percent and for freight service provided by the railways, increase cash collection rate to 60 percent.

*5. Pass amendments to the Law on Insolvency (bankruptcy) to eliminate the bias in the law toward reorganization rather than liquidation of enterprises; eliminate court discretion in overruling the creditors' decision to liquidate the debtor enterprise; and provide for the participation of the state in bankruptcy proceedings at all stages where relevant for the protection of the public interest.

*6. Award contracts for the execution of financial management reviews, leading to annual audits—carried out in line with international auditing standards—of the Pension Fund, Social Insurance Fund, Medical Insurance Fund, and the Road Fund.

7. Issue a decision requiring Gazprom, RAO UES, the Railways, and Transneft to prepare and publish on a quarterly basis financial accounts consistent with the International Accounting Standards (IAS), commencing with accounts for the first quarter of 2000.

*8. Eliminate the deposit requirement for prepayment of imports.

*9. Submit to the Duma amendments to the Bank Bankruptcy Law, as described in paragraph 45 of the Statement on Economic Policies.

10. Carry out a review of monetary policy instruments available to the Central Bank of Russia, and take additional measures necessary to allow the Central Bank of Russia to achieve the monetary policy objectives. ■

* Not met as of December 7, 1999.

*Seattle conference*

# IMF, World Bank, WTO leaders stress importance of increased trade for reducing poverty

*IMF Managing Director Michel Camdessus, World Bank President James D. Wolfensohn, and World Trade Organization (WTO) Director-General Mike Moore issued a joint statement to the Third WTO Ministerial Conference in Seattle, Washington, on November 30. Camdessus also addressed the conference separately. Extracts from the joint statement, issued as News Brief 99/78, and Camdessus's statement follow.*

During the past two years, which have been difficult for many of our member countries, the multilateral trading system has been an anchor of strength and stability in the world economy. Its rules are an essential element of the framework for international economic policy cooperation. The damaging economic and social effects of financial crisis have been felt widely, yet the consequences would have been far worse if the crisis had provoked a protectionist trade response. A broad-based recovery in world economic activity and a return to macroeconomic stability are now under way. In these circumstances, it is important that restrictive trade measures continue to be resisted firmly and that further steps are taken to open markets and enhance competi-

tion to strengthen the contribution of trade to poverty alleviation and development.

Poverty afflicts an intolerably large proportion of the world's population. The evolution toward a more open, integrated, and competitive global economy offers great potential for fostering growth and the economic and social development needed to eradicate poverty. But the human and social benefits of economic globalization do not accrue automatically, and globalization presents particular challenges for the poorest countries. Supporting their efforts to integrate more fully into the world economy is an urgent task for the international community, and one to which our three organizations are strongly committed.

New WTO negotiations offer an excellent opportunity for governments collectively to renew their commitment to a comprehensive liberalization of international trade. We call on WTO members to be ambitious and farsighted in setting their negotiating objectives. The negotiations have the potential to yield results that improve the functioning of the world economy and create greater opportunities for developing countries. In particular, there are large potential gains to be had from further multilateral liberalization of trade in those goods and services that are of particular export interest to developing countries.

As national economies become more interdependent, fostering poverty reduction through sustained, broadly shared, high-quality growth depends to an important extent on intergovernmental cooperation to ensure that trade, finance, macroeconomic, and development policies are mutually supporting. The IMF, the World Bank, and the WTO have special responsibilities to assist our member governments in this regard, and we will continue to work together closely, under our Cooperation Agreements, to help them increase the coherence of economic policymaking. Support for developing countries, and particularly for the poorest among them, in the new WTO negotiations will be a priority focus of our cooperation. We welcome guidance from our member governments on other areas that they would wish to see us address.

### Camdessus emphasizes poverty reduction

*In his remarks to the WTO conference, Camdessus said that the world needs an ambitious, far-reaching global trade round for three compelling reasons: to sustain the recovery of world economic activity, to support the continuing reform of the international monetary and financial system, and to deliver a major impetus in the global offensive on poverty.*

"If I were to stress one point alone," Camdessus said, "this would be it—trade, through its contribution to sustained high-quality growth, is vital for the lasting reduction of poverty." That is why he said he was urging that particular attention be drawn to the developing countries and their integration into the global trading system.

He advocated providing unrestricted market access for all exports from the poorest countries, including the heavily indebted poor countries, and urged that this should be given priority and be brought to an early resolution, so that the poorest countries can begin to benefit without delay. They account for such a small proportion of world trade—less than ½ of 1 percent—that such access would not be costly or unduly disruptive, he said.

Concluding, Camdessus reiterated that "it is only through a truly cooperative approach—one that ensures that trade, development, macroeconomic, and financial policies are mutually supportive—that we will be able to make lasting progress on the most pressing issue facing humanity at the end of the twentieth century—reducing poverty."

*The full texts of News Brief 99/78 and Camdessus's address to the conference are available on the IMF's website (www.imf.org).* ■

### Financial Stability Forum creates two ad hoc working groups

The Financial Stability Forum announced in a November 19 press release that it has created two ad hoc working groups.

The first group, a task force chaired by Andrew Sheng, chairman of the Hong Kong Securities and Futures Commission, is charged with examining ways to promote the implementation of international standards, including through official and market incentives. The task force will explore strategies to help countries implement standards and evaluate options for generating information on their progress.

The second is a study group to be chaired by Jean-Pierre Sabourin, President of Canada Deposit Insurance Corporation. This group will review recent experience with deposit insurance schemes and consider setting out international best practices for such arrangements.

The two groups comprise officials from developed and developing market economies, international financial institutions, and supervisory groupings. They are expected to report to the next meeting of the Financial Stability Forum, to be held in April 2000.

The Financial Stability Forum was first convened in April 1999—the result of an initiative of the finance ministers and central bank governors of the Group of Seven industrial countries—to promote international financial stability, improve the functioning of markets, and reduce systemic risk (see *IMF Survey*, April 26, page 117).

*(The terms of reference for the two groups and information about the Financial Stability Forum are available on the Forum's website (www.fsforum.org).*

*Monetary and trade conference*

# Participants debate benefits of globalization, durability of current economic recovery

Globalization—driven by technological forces that cannot be restrained or reversed—appears to be here to stay, raising questions about how, against this background, policy should be handled. Panelists at the Eighteenth Annual International Monetary and Trade Conference, sponsored by the Global Interdependence Center in Philadelphia on November 15, discussed the ramifications of globalization, focusing on the financial crises that have characterized the last dozen years of the twentieth century and the nascent recovery, as well as economic conditions and prospects in different regions of the world.

The goal of the conference series is to translate the ideas of decision makers, the media, the academic and business communities, and the interested public into practical suggestions for public policy.

## Globalization: blessing or curse?

Globalization is both a blessing and a curse, said E. Gerald Corrigan, although the net effect is a distinct plus for the world economy despite the accompanying growing pains, which he said would be around for a long time. In the past 12 years, he noted, the world has experienced 12 bouts of financial instability, which have given rise to uneasiness that all is not well. Markets, he observed, are good at sorting things out until questions having to do with credit arise, such as "will people be paid?" These episodes of instability, Corrigan noted, made it clear why there have been calls for reform, which has been labeled "the new architecture." In his opinion, however, the focus should be on making existing arrangements work better—improving macroeconomic policies as well as risk- and debt-management policies, increasing disclosure, and instituting floating exchange rate regimes (not a panacea, in his view, but better than the alternatives). Progress in these areas is possible, he said, even over the short run, although he recognized that institution building was a tough, long-term problem in emerging markets. He wondered if these countries could sustain the political will to implement such reforms when they were still in the early stages of the fragile process of building democratic political institutions.

Economists say that each crisis is "a new breed of crisis," according to Carmen Reinhart, but she contended that all crises have similar characteristics. "Every 'respectable' crisis," she explained, "is preceded by a boom." On the eve of a crisis, a country has a budget surplus, low inflation, and a liberalized trade and capital account, but it also has weak, badly managed banks that are piling up short-term debt in foreign currencies. Then, the boom is punctured. These conditions describe events in Chile in 1981 and Asia in 1997. The difference between earlier crises and more recent ones, she said, is how quickly the effects of the latter spread to other regions.

*Carmen Reinhart*

How can these crises be prevented? Not, Reinhart emphasized, by turning back the clock and instituting capital controls. The problem emerging markets have is not too much capital flowing in, but too little. According to the new financial architecture—which is not so different from the old, in Reinhart's view—countries should float rather than peg their currencies. But this would not work, she argued, because countries borrow in foreign currency while their income is in domestic currency, which leads to currency mismatches. In her view, the only way to alleviate crises is to have fewer currencies, such as the dollar and the euro.

## Is the economic recovery durable?

Focusing on recovery, Lawrence Klein asked whether the impressive improvements in most of the world represented not just a restoration of order in financial markets but a deeper turnaround in "real" economic conditions. He listed a number of problems that could disrupt the world pattern of recovery, including a possible stock market correction in the United States and overreaction by the monetary authorities, a major failure of computer systems worldwide attributable to the impending date change, a cumulative deflationary spiral, and, in Asia, setbacks in individual countries.

*Lawrence Klein*

Addressing the concerns about the U.S. economy, Klein noted that the strength of the economy had been consistently underestimated, with monetary officials calling for financial restraint whenever growth seemed too high and unemployment too low. He cited evidence from econometric studies that information and other new

### Global Markets, Blessing or Curse?

*Participants*

E. Gerald Corrigan
*Chairman, International Advisors, Goldman Sachs & Co.*

Martin Barnes
*Managing Editor, The Bank Credit Analyst*

Lawrence Klein
*Benjamin Franklin Professor of Economics Emeritus, University of Pennsylvania (and Nobel Laureate)*

Lawrence Kudlow
*Chief Economist and Managing Director, Schroder & Co., Inc.*

Scott E. Pardee
*Senior Director of Finance Research Center, Sloan School, Massachusetts Institute of Technology*

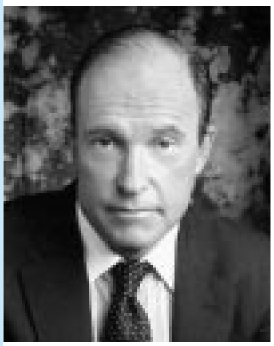
Arturo Porzecanski
*Managing Director and Americas Chief Economist, ING Barings*

Carmen Reinhart
*Associate Professor, University of Maryland School of Public Affairs*

Robert Solomon
*Guest Scholar, The Brookings Institution*

technology were contributing to stronger productivity growth, with a long-term growth potential of 3 percent or more. He acknowledged that U.S. stock prices had been driven excessively high, but suggested that it was up to the monetary authorities to bear this information in mind: "not to set specific target values, but to be aware of side effects on market valuations as a result of their normal policy decisions."

For a long time, the United States has been the sole engine of growth in the world economy, but new ones are appearing, Klein said, which is a good thing. First, Western Europe has been expanding, which he believed was helping fuel recovery in the rest of the world, and the large Asian economies are also beginning to play a role in energizing the global economy. According to Klein, Japan has been surprisingly strong in the past few months, with GDP growth expanding by a small amount, and monthly data on industrial production and unemployment showing that better times lie ahead.


Lawrence Kudlow

Elsewhere in Asia, Klein pointed to the experience of Hong Kong SAR as being indicative of the Asian recovery. An extreme example of the free market system at work, the economy went into recession soon after returning to Chinese sovereignty in July 1997 but was expanding by the second quarter of 1999. The projections are for continuing improvement, without a near-term lapse. In other regions, Russia turned in a better economic performance in 1999 than had been expected the previous year. Brazil, too, was poised to go into a decline at the time of the Russian default in August 1998, but emerged in better shape than expected. According to Klein, the projections for 2000 and 2001 in Brazil are quite optimistic for the "first steps of a healthy recovery."

One current feature of the world economy, Klein noted, is the weakness of basic commodity prices, which has hurt the primary producers (mainly developing countries) and benefited industrial countries. Oil prices have begun to rise this year—not high enough to knock the broad recovery off its path but enough, perhaps, to cause some world income redistribution. Along with weak commodity prices, growth in world trade has been poor, but the outlook is for a moderate recovery, to about 6 percent. Summarizing his evidence, Klein said that moderate but solid growth in the industrial countries and in major parts of the developing and transition world was "fully consistent with the thesis that the world economic crisis is coming to an end."

### U.S. performance underestimated?

Lawrence Kudlow echoed Klein in emphasizing that economists had been underestimating U.S. economic performance for almost twenty years. This, he said, is because both the models and the economic theory on which they are based are wrong: (1) they ascribe limits to growth, which fosters a pessimistic approach to analyses of economic performance; (2) they are based on assumptions of diminishing rather than increasing returns; and (3) they exhibit a lack of confidence in free markets and their ability to regulate business. In Kudlow's opinion, inflation could continue to drop, or at least would not rise, because increasing use of the Internet will improve the flow of information, encouraging cost cutting and price cutting around the world. Thus, the U.S. economy could grow at the current rate forever—continuing to be a global locomotive—as long as government obstacles to entrepreneurship are removed and barring, for example, a war or an oil price shock.

Martin Barnes agreed that the United States is experiencing a long-wave upturn, with no sign that the technological boom is slowing. The big question, he said, is whether the trend in productivity will continue to improve. On a less heady note, he cautioned that inflation could rise even as the global economy recovers. Thus, he said, "we cannot ignore short-term cyclical pressures," such as rising U.S. import prices. He argued that inflationary pressures would continue to mount as long as demand growth outstripped the supply potential of the economy. To control inflation, Barnes added, tighter financial conditions would be necessary, which could be achieved through a strengthening of the dollar, a weakening of the stock market, or an increase in interest rates. In the end, he said, the economy must slow and get back into better balance. In Europe and Japan, where unemployment rates are higher, "there is no need to fear an early upturn in inflation," according to Barnes. However, he described interest rates in these regions as being below equilibrium levels and predicted that they would rise significantly in the next couple of years.

### Japan, Latin America, Europe

Discussing Asia, Scott Pardee focused on the growing Japanese economy, suggesting that the country should follow easy fiscal and monetary policies for some time. Japan must address serious structural issues, including the aging of its population, declining birth rates, and a dearth of professional women in the work force, he said. Worry about jobs has led to a collapse of confidence; when confidence improves, people will begin to spend and invest again, stimulating the economy. Until changes are made, which Pardee indicated would take decades, the Japanese economy will "limp along trying to compete in the global economy." The positive news is that Japan cannot fail to restart its economy—the political climate for reform is favorable.

In his discussion of lessons learned about foreign capital in Latin America, Arturo Porzecanski agreed with Corrigan that globalization—like the telephone—is both a blessing and a curse. Latin America, he said, is the region that depends most heavily on foreign capital. But it has not always been this way. A wave of nationalism in the 1960s discouraged foreign direct investment, which, in the 1990s, has begun to flow back because of an ideological shift in favor of opening up the economy. Without this foreign direct investment, the region would have contracted even more severely than it did in the wake of the Asian crisis. Not all capital, Porzecanski observed, was created equal, but "you cannot say 'yes' to foreign direct investment and 'no' to other flows." Long-term foreign direct investment is the most stable and brings with it managerial know-how and technology transfers, among other good things. To limit their dependency on short-term flows, countries might consider instituting capital controls in the banking system, he argued.

*Arturo Porzecanski*

Why is Latin America so dependent on foreign capital? The reason, according to Porzecanski, is that the saving rate is very low and consumption rates are high, so that the region must import savings. He said foreign capital would continue to play a dominant role in Latin America, but the region could reduce its dependence over time. Most Latin American countries have conquered hyperinflation, and interest rates have been liberalized. As a result, people have more incentive to save—and to save at home. As the state withdraws from economic activity, there are more investment opportunities, including private pension funds. Also, Latin America now has a large young baby boom population. As the members of this cohort move through time, they will become able-bodied workers and begin to save in anticipation of retirement. Global financial integration is irreversible, Porzecanski concluded, and Latin America must learn to live with capital flows.

*Robert Solomon*

Robert Solomon, discussing the creation of the common currency area in Europe, felt it was not possible to conclude that the euro area would energize Europe or the world economy. How well European Economic and Monetary Union will work has often been discussed in terms of whether it is an optimal currency area—that is, one in which its regions are affected similarly by shocks and among which labor and capital move freely. In the euro area as a whole, unemployment exceeds 10 percent and is even higher for people under the age of 25, although several euro-area countries have lower unemployment rates. Currently, labor is not highly mobile and has not moved to the countries with lower unemployment, partly because of differences in language and culture. Moreover, the countries in the euro area are likely to experience different rates of economic growth because of the relative importance of manufacturing and services. It has been argued that the move to a single currency will make this region an optimal currency area, but Solomon expressed uncertainty about the possibility of increased labor mobility. In addition, he said, the different countries need to retain flexibility of fiscal policy in the event that their economies grow at different rates, which would also influence developments in the region. Nonetheless, he recognized that the single currency would eliminate uncertainty about exchange rates, thereby promoting trade within the area and raising growth rates. ■

Elisa Diehl
Assistant Editor, *IMF Survey*

## IMF Executive Board approves measures for financing of debt relief

On December 8, the IMF stated in a press release that the Executive Board had made the decisions that would enable the IMF to begin making its contributions to the strengthened Heavily Indebted Poor Countries Initiative (HIPC) and to the Poverty Reduction and Growth Facility (PRGF) (previously the Enhanced Structural Adjustment Facility). To finance its share of the PRGF-HIPC Trust, the IMF will use contributions from member countries and the IMF itself, including resources derived from off-market transactions of its stock of gold. The IMF has already begun to receive bilateral contributions and expects to obtain further significant amounts of contributions to the Trust once members finalize their pledges.

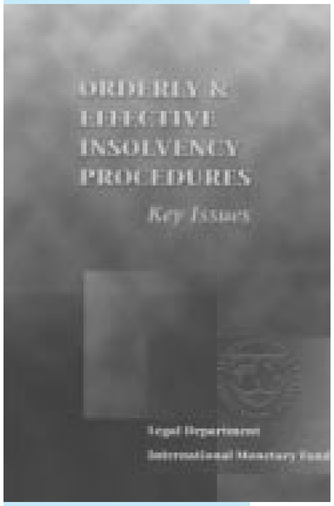
The press release states that the IMF will begin off-market gold transactions within the next few days. The investment income from the profits generated by these transactions will be used to provide debt relief under the HIPC Initiative. To date, the Board has authorized the transfer of about two-thirds of the investment income for this purpose. It is expected to review financing for the PRGF-HIPC Trust in the spring of 2000, including the transfer of the remaining investment income.

*The full text of Press Release No. 99/57 is available on the IMF's website: www.imf.org.*

*Legal Department report*

# Effective insolvency procedures can strengthen domestic enterprise and financial sector

Over the years, the IMF has become increasingly involved in the promotion of orderly and effective insolvency systems among its members. Experience has demonstrated that reform in this area can play a major role in strengthening a country's economic and financial system. For example, an effective insolvency system provides an important pillar of support for the domestic banking system by enabling banks to curtail the deterioration of the quality of their claims, including claims on the corporate sector, whether through a court-approved restructuring or, where necessary, through an efficient liquidation.




Insolvency reform can be particularly relevant for economies in transition, where it can play a critical role in addressing the problems of insolvent state-owned enterprises. In the context of financial crises, an orderly and effective insolvency system can provide an important means of ensuring an adequate private sector contribution to the resolution of such crises. Finally, although insolvency procedures are implemented through the courts, the very existence of an orderly and effective insolvency system establishes incentives for negotiations between debtors and their creditors, which may lead to out-of-court agreements being reached "in the shadow" of the law.

Drawing on its experience in providing technical assistance in this area, the IMF's Legal Department has recently published a report entitled *Orderly and Effective Insolvency Procedures: Key Issues*. Although based on a comparative study of selected insolvency laws, the study is not intended to be a description of such laws. The approaches adopted by countries vary in a number of respects—these differences are attributable not only to divergent legal traditions but also to different policy choices. Because of these differences, international standards do not exist in this area, and the report does not attempt to propose such standards. However, in its discussion of the key issues in this area, the study weighs the advantages and disadvantages of possible solutions.

## Overall objectives of an insolvency law

Although the insolvency laws of countries differ in important respects, most systems generally share two overall objectives.

*Predictable, equitable, and transparent allocation of risk among participants in a market economy.* Achievement of this objective plays a critical role in providing confidence in the credit system and fostering economic growth for the benefit of all participants. For example, the ability of a creditor to begin insolvency proceedings against a debtor as a means of enforcing its claim reduces the risk of lending, thereby increasing the availability of credit and, more generally, investment. An insolvency law also allocates risk among different creditors, which benefits borrowers as well. For example, if the insolvency law affords secured creditors special treatment vis-à-vis unsecured creditors, such treatment protects the value of security, which may be particularly important for those debtors that, because of their credit risk, cannot obtain (or afford) unsecured credit.

• *Predictability*. Individual countries have made—and will continue to make—different policy choices about how their insolvency laws will allocate risk among participants. Regardless of these choices, however, it is generally recognized that the relevant risk allocation rules should be clearly specified in the law and that they should be consistently applied by the individuals and institutions charged with implementing them. As experience has demonstrated, no matter what policy choices countries make regarding the allocation of risks, participants will often be able to take measures (including through price adjustment) that will help them manage the risk in question when the application of these rules is relatively predictable. In contrast, when the rules or their application is uncertain, such uncertainty will erode the confidence of all participants and will undermine their willingness to make credit and other investment decisions.

• *Equitable treatment*. A common feature of all insolvency proceedings is their collective nature. Unlike other laws (for example, foreclosure laws), an insolvency law is designed to address a situation in which a debtor is no longer able to pay its debts to its creditors generally (rather than individually) and, in that context, provides a mechanism that offers equitable treatment of all creditors. As the report notes, equitable treatment does not require equal treatment. On the contrary, to the extent that different creditors have struck fundamentally different commercial bargains with the debtor (for example, through the granting of security), differential treatment of creditors that are not similarly situated may be necessary as a matter of equity. For the benefit of all creditors, however, an insolvency law must address the problem of fraud and favoritism that often arises in the context of financial distress. Moreover, given the importance of international credit and investment, it is critical that the law ensure that there is no discrimination against foreign creditors. Finally, the collective nature of a proceeding can give reassurance to creditors that problems will be resolved in an orderly and equitable manner.

• *Transparency*. During the course of insolvency proceedings, it is important that interested participants be given sufficient information to enable them to exercise their rights under the law. It is critical, for example, that creditors receive adequate notice of meetings when creditor decisions are to be taken and that they receive sufficient information from the debtor to ensure that their decisions are informed. In circumstances where decisions are made by the institutions charged with implementing the law (the court and the court-appointed liquidator or administrator), it is also important that the law provide adequate guidance about the exercise of their discretion and, in the case of the court, require that judicial proceedings be open and that the rationale underlying the court's decision be made publicly available.

*Protecting and maximizing value for the benefit of all interested parties and the economy in general.* This objective is most obviously pursued in the context of rehabilitation, where value is maximized through the continuation of a viable enterprise. But it is also a primary objective of procedures that liquidate enterprises that cannot be rehabilitated. Achievement of value maximization is, in many cases, furthered by the fulfillment of the objective of equitable risk allocation. For example, nullification of fraudulent transactions that occurred before the commencement of an insolvency proceeding ensures that creditors are treated equitably and also enhances the value of the debtor's assets. However, the nullification of prior transactions also extends to nonfraudulent transactions, which can undermine predictability. Similarly, during the insolvency proceedings, many countries give the liquidator or the administrator (depending on the nature of the proceedings) the authority to interfere with the terms of a contract previously entered into between the debtor and a counterparty. While the exercise of this authority provides an important means of maximizing the value of the assets of the debtor, it also undermines the predictability of contractual relations, which is critical to the making of investment decisions.

### Policy choices

Some of the key policy choices in the design of an insolvency law relate to the way the above objectives are balanced against each other. In addition, choices need to be made regarding who will be the beneficiaries of the value that is maximized. Some countries view rehabilitation procedures as a means for enhancing the value of creditors' claims through the going-concern value of the enterprise. Other countries view these procedures as a way to provide a "second chance" to the shareholders and the management of the debtor. Still others view the continuation of the enterprise as being primarily for the benefit of the employees.

The protection of employees raises the larger issue of when reliance on the insolvency law should be avoided altogether, so that certain public policy objectives can be achieved. For instance, as a means of limiting unemployment or rescuing enterprises engaged in important national activities, the authorities may prefer to address the problems of a troubled company through measures that will involve an extensive use of public funds and give the beneficiaries a substantial advantage over their less-favored competitors.

When determining how to strike a balance between the various objectives, policymakers must take care to avoid easy stereotypes. Debtors are not always fraudulent or incompetent, and creditors are not always grasping and selfish. As borne out by recent experience, although companies may fail because of incompetence, they may also fail because of economic difficulties beyond their control.

### Role for insolvency law

Viewed from the perspective of the economic policymaker, it is evident that an effective insolvency law can play a critical role in several areas. The discipline it imposes on a debtor increases the competitiveness of the enterprise sector and facilitates the provision of credit. More specifically, to the extent that the enterprise is owned by the state, subjecting it to the application of the general insolvency law sends a clear signal about the limitations of public financial support. In that context, the rehabilitation provisions of an insolvency law can provide an effective way of ensuring that creditors contribute to the resolution of the financial problems of state-owned enterprises, thereby limiting the public cost of rehabilitation.

With respect to the financial sector, an effective insolvency law enables financial institutions to curtail the deterioration of the value of their assets by providing them with a way of enforcing their claims. It can also facilitate the development of capital markets. For example, if an insolvency law is applied with sufficient predictability, a secondary market in debt instruments can develop, which, among other things, will enable financial institutions to transfer their loans to other entities that specialize in the workout process.

Finally, in the context of a financial crisis where the entire enterprise sector is in distress, an effective insolvency law can ensure that private creditors contribute to the resolution of the crisis. For example, a rehabilitation procedure provides a means for imposing a court-approved restructuring agreement over the objections of dissenting creditors. Not only does such a mechanism reduce the public cost of the crisis and relieve external financing needs, but it also strengthens the stability of the international financial system by forcing creditors to bear the costs of the risks they incur. ■

IMF Legal Department

Copies of *Orderly and Effective Insolvency Procedures: Key Issues,* prepared by the IMF's Legal Department, are available from IMF Publication Services for $22.00 each. See page 397 for ordering information.

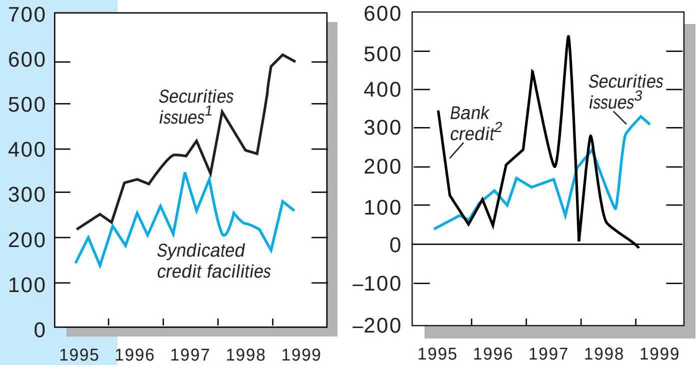
**An effective insolvency law can ensure that private creditors contribute to the resolution of financial crises.**

# Money and bond market activity shows rise in first nine months of 1999 over 1998 levels

**P**rimary market activity in the money and bond markets moderated slightly in the third quarter of 1999, but remained well above the average for the third quarter of 1998, according to the Bank for International Settlements. In the first three quarters of this year, according to the Bank's *Quarterly Review: International Banking and Financial Market Developments*, the volume of new securities reached $1.8 trillion, surpassing that for 1998 as a whole. Apparently, the report explains, the rise of long-term interest rates in Europe and the United States did not hamper issuing activity in the international securities markets in the third quarter.

## Activity in international bank credit and securities markets

(Billion U.S. dollars)

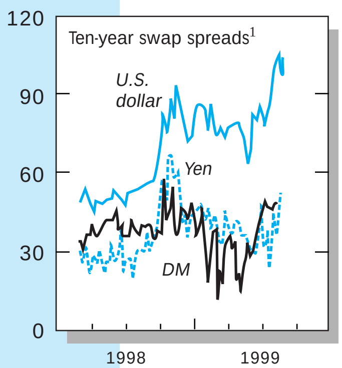



Data: Bank for International Settlements

[1]Includes money market instruments, bonds, and notes.
[2]Exchange-rate-adjusted changes in gross international bank claims.
[3]Gross issues minus repayments.

## Bank credit and liquidity spreads

(Weekly data, in basis points)




Data: Bank for International Settlements

[1]Ten-year interest rate swap yield less the 10-year benchmark note yield.

The most striking development during the quarter, the report notes, was the extraordinary widening of spreads on U.S. dollar and sterling interest rate swaps. Spreads on U.S. dollar swaps, in particular, exceeded third-quarter 1998 levels, perhaps reflecting liquidity pressures, with the increase in corporate bond issuance leading to an unusual amount of swap hedging activity by underwriters and investors.

There was no credit event in the third quarter of 1999 as large as Russia's debt moratorium in August 1998. However, financial market participants seemed troubled by several disturbing announcements, including Daewoo's default on its domestic and foreign loans, which caused a run on investment trusts and disrupted offshore securities markets, and, shortly afterward, rumors that Ecuador would miss an August payment on some of its outstanding Brady bonds, marking the first time a country missed a payment on its Brady debt. Fortunately, according to the report, these events did not create contagion on the scale that occurred in 1997 and 1998.

Since the beginning of 1999, the international bond market has recovered rapidly, the report states. While announcements of international bond and medium-term note issues declined by 8 percent, to $411 billion in the third quarter of 1999 from the previous quarter, they remained much higher than the quarterly average for 1998, which was $286 billion. Since the start of the year, most of the expansion in international business has resulted from the funding operations of financial institutions forced to pare down issuance following the market turbulence triggered by the Russian debt moratorium. The need to boost capital ratios, finance expansion into new areas, and fund corporate mergers and acquisitions has encouraged banks to return to securities markets. The introduction of the euro has consequently led to an increase in euro-denominated issuance, which closely follows that of the U.S. dollar. The combined share of dollar and euro issuance amounts to more than 80 percent of new issues, making the international bond market virtually a two-currency market.

In the syndicated loan market, activity declined slightly in the third quarter to $251 billion. However, it remained high by historical standards, reflecting a slowing of merger-related facilities from the quick pace of the second quarter. In the early part of the year, according to the BIS international banking statistics, international bank lending to the nonbank sector recovered. There was, however, an unusually large decline in interbank claims, partly attributed to the transition to the euro and to a cutback in Japanese interoffice transactions. Banking activity also reflected banks' further retrenchment from emerging market economies. ■

*Quarterly Review: International Banking and Financial Market Developments*, November 1999, is available from the BIS, CH-4002, Basel, Switzerland; the press release is also posted on the BIS website (www.bis.org).

# Press releases

*Following are excerpts of recent IMF press releases. Full texts are 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).*

## Rwanda: ESAF

The IMF approved the second-year arrangement for Rwanda under the Enhanced Structural Adjustment Facility (ESAF) in an amount equivalent to SDR 23.8 million (about $32.77 million) to support the government's economic program. Rwanda's three-year ESAF arrangement was approved on June 24, 1998 (see Press Release 98/24, IMF Survey, July 6, 1998, page 216), in an original amount of SDR 71.4 million (about $98 million), of which SDR 23.8 million (about $33 million) has been disbursed. Today's decision provides Rwanda with another SDR 23.8 million to be disbursed during the second year, with SDR 9.5 million (about $13.1 million) available immediately.

In commenting on the Executive Board discussion on Rwanda, IMF Deputy Managing Director Shigemitsu Sugisaki said:

"Directors commended the authorities for maintaining macroeconomic stability, improving fiscal management and transparency, and making progress with structural reforms under the 1998/99 program—despite a difficult security environment and institutional capacity constraints. This allowed Rwanda to achieve solid economic growth and low inflation.

"Directors stressed the importance of improving tax and customs administration and accelerating the preparation of the value-added tax. They also attached particular importance to achieving the targeted reductions in defense outlays in 1999 and 2000.

"Directors stressed the need to enhance governance and welcomed the steps taken to improve budgetary transparency and control."

### Medium-term strategy

The government's medium-term strategy aims at achieving high and sustainable growth and rapid poverty reduction. The macroeconomic objectives for 1999–2002 are to achieve annual real GDP growth of 6 percent while keeping inflation at or below 3 percent a year. For the year 2000, revenues are projected to improve to 10.7 percent of GDP.

### Rwanda: selected economic and financial indicators

| | 1994 | 1995 | 1996 | 1997 | 1998[1] | 1998[2] | 1999[3] | 1999[2] | 2000[4] | 2001[4] | 2002[4] |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | (annual percent change) | | | | | | | | | | |
| Real GDP growth | –50.2 | 34.4 | 15.8 | 12.8 | 6.7 | 9.5 | 8.1 | 5.0 | 5.0 | 6.0 | 6.0 |
| Consumer prices (end of period) | 64.4 | 38.3 | 9.2 | 16.6 | 7.0 | –6.0 | 5.0 | 2.5 | 3.0 | 3.0 | 3.0 |
| | (percent of GDP, unless otherwise indicated) | | | | | | | | | | |
| Overall balance (payment order; including grants) | –11.5 | –2.4 | –5.7 | –2.4 | –5.6 | –2.9 | –5.6 | –5.4 | –5.9 | –6.5 | –6.5 |
| External current account balance (excluding official transfers) | –53.0 | –19.1 | –19.0 | –17.3 | –20.1 | –17.0 | –19.6 | –15.8 | –17.0 | –16.9 | –16.8 |
| Gross reserves (in months of imports, c.i.f) | 1.3 | 5.0 | 5.0 | 5.4 | 6.0 | 6.1 | 6.0 | 7.3 | 6.2 | 5.7 | 4.5 |

[1]Program.
[2]Estimate.
[3]Revised program.
[4]Projections.

Data: Rwandese authorities; and IMF staff estimates and projections

## Recent publications

### Occasional Papers ($18.00; academic rate: $15.00)

185: *Oman Beyond the Oil Horizon: Policies Toward Sustainable Growth*, Ahsan Mansur and Volker Treichel

### Working Papers ($7.00)

99/148: *Idiosyncratic Risk: An Empirical Analysis, with Implications for the Risk of Relative-Value Trading Strategies*, Anthony J. Richards

99/149: *Why Has Inflation in the United States Remained So Low? Reassessing the Importance of Labor Costs and the Price of Imports*, Jorge A. Chan-Lau and Stephen Tokarick

99/150: *Foreign Investment in Colombia's Financial Sector*, Adolfo Barajas, Roberto Steiner, and Natalia Salazar

99/151: *Bank Rating Changes and Bank Stock Returns—Puzzling Evidence from the Emerging Markets*, Anthony Richards and David Deddouche

99/152: *Has the Nature of Crises Changed? A Quarter Century of Currency Crises in Argentina*, Nada Choueiri and Graciela Kaminsky

99/153: *Regulation of Withdrawals in Individual Account Systems*, Jan Walliser

99/154: *Identifying the Common Component in International Economic Fluctuations: A New Approach*, Robin L. Lumsdaine and Eswar S. Prasad

99/155: *Booms and Slumps in World Commodity Prices*, Paul Cashin, C. John McDermott, and Alasdair Scott

### Other publications

IMF Pamphlet 51: *Debt Relief for Low-Income Countries: The Enhanced HIPC Initiative* (free)

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.

The government will also be implementing a strategy to reduce poverty, focusing on improving agricultural productivity, promoting small and medium-size enterprises in rural and urban areas, and encouraging the expansion of the coffee and tea sectors through liberalization and privatization.

Rwanda joined the IMF on September 30, 1963; its quota is SDR 80.1 million (about $110.3 million). Its outstanding use of IMF financing currently totals SDR 45.8 million (about $63 million).

Press Release No. 99/53, November 19

## The Gambia: ESAF

The IMF approved the second annual loan under the Enhanced Structural Adjustment Facility (ESAF) in the amount of SDR 8.6 million (about $11.8 million) for The Gambia to help establish durable and broad-based economic growth and a lasting reduction in poverty. The three-year ESAF loan was approved on June 29, 1998 (see Press Release 98/28, *IMF Survey*, July 20, 1998, page 234), in an original amount of SDR 20.61 million (about $28.4 million), of which SDR 3.44 million (about $4.7 million) has been disbursed.

**The Gambia: selected economic and financial indicators[1]**

| | 1994/95 | 1995/96 | 1996/97 | 1997[2] | 1998[3] | 1998[4] | 1999[3] | 2000[3] | 2001[3] | 2002[5] |
|---|---|---|---|---|---|---|---|---|---|---|
| | (annual percent change, unless otherwise indicated) | | | | | | | | | |
| GDP at constant prices | –3.4 | 5.3 | 0.8 | 4.9 | 3.8 | 4.7 | 4.2 | 5.0 | 5.0 | 5.0 |
| Consumer price index (end of period) | 5.2 | 0.2 | 4.8 | 0.3 | 3.0 | 4.4 | 2.0 | 2.5 | 2.5 | 2.5 |
| | (percent of GDP) | | | | | | | | | |
| Current account balance (excluding official transfers) | –12.5 | –20.1 | –12.8 | –10.6 | –10.6 | –11.6 | –10.8 | –10.5 | –10.1 | –9.5 |
| Central government budget (including grants)[6] | –3.3 | –9.9 | –9.7 | –6.5 | –2.7 | –2.5 | –1.7 | –0.9 | –0.2 | 0.2 |
| Gross official reserves (months of imports, c.i.f.)[7] | 3.9 | 4.6 | 4.4 | 3.9 | 4.4 | 3.9 | 4.2 | 4.4 | 4.8 | 4.9 |

[1]Until 1996/97, fiscal years (July–June); from 1997, calendar years.
[2]Estimate.
[3]Program.
[4]Preliminary.
[5]Projection.
[6]On a commitment basis.
[7]Plus all other services payments.
Data: The Gambian authorities and IMF staff estimates and projections

At the conclusion of the Executive Board's discussion, IMF Deputy Managing Director Shigemitsu Sugisaki made the following statement:

"Directors noted that, despite broadly encouraging developments under the first annual arrangement, there were some difficulties in 1998 to do with fiscal policy and a number of structural reforms. The program seeks sustainable growth and poverty reduction through reestablishing macroeconomic stability, deepening structural reforms, and rebuilding investor confidence. Directors emphasized the need for determination in implementing fully the necessary measures.

"Directors stressed the need for a prudent monetary policy and continued fiscal consolidation to free resources for higher social and investment spending. Further improvements in tax administration are essential to maintain a sound revenue base. On the expenditure side, there is a need to strengthen the allocative efficiency of the budget, while updating the computerization of operations."

### Strategy for 1999–2000

The government's strategy for 1999–2000 is to consolidate the gains made in 1998 and so far in 1999, despite some slippages and adverse developments during that period. The fiscal program through 2000 aims to reduce the overall deficit to 2.5 percent of GDP in 2000 from 4.5 percent in 1998. In its budget for 2000, the government plans to further reduce expenditure while bolstering domestic revenue.

The program further aims to reduce the external account deficit while increasing gross external reserves to an equivalent of about four months of imports of goods and services. Monetary policy will focus on containing average annual inflation at about 2.5 percent in 1999 and 2000 while maintaining adequate gross official reserves. On structural reforms, the government is taking steps to strengthen the legal and institutional framework. Social policy will focus on improving employment opportunities in key sectors and on providing better social services.

The Gambia joined the IMF on September 21, 1967, and its quota is SDR 31.10 million (about $42.8 million). Its outstanding use of IMF financing currently totals SDR 5.86 million (about $8.1 million).

Press Release No. 99/54, November 19

## FINANCE & DEVELOPMENT

PUBLISHED BY THE INTERNATIONAL MONETARY FUND

The December issue of *Finance & Development*, which is now available, addresses the major issues facing the global economy as the world enters a new millennium.

The stage is set for this review by John Kenneth Galbraith, the distinguished economist, who discusses in an interview some of the major challenges facing humankind. IMF area department directors follow with their view of prospects for the world economy. Among the other articles in the issue are

Is Liberalization Reversible?
*Harold James*

The Changing Development Landscape
*Shahid Yusuf*

From Centralized to Decentralized Governance
*William Dillinger and Marianne Fay*

The World Trading System: The Road Ahead
*Simon J. Evenett*

Trade: An Engine of Growth for Africa
*Robert Sharer*

Components of a Future Development Strategy: The Importance of Human Development
*Paul Streeten*

Governance in the Digital Economy
*Don Tapscott and David Agnew*

*Finance & Development* is published four times a year by the International Monetary Fund, in English, Arabic, Chinese, French, and Spanish. Subscriptions are free of charge. To receive *Finance & Development*, please write to IMF Publication Services, Box FD 99, Washington DC 20431, U.S.A.

# Inaugural seminar focuses on economic reform, governance, and capacity building

*The inaugural seminar of the Joint Africa Institute (JAI), which was established by the African Development Bank (AfDB), the IMF, and the World Bank, was held on November 2–3 in Abidjan (see* IMF Survey, *May 10, page 144). The seminar focused on economic reform, governance, and capacity building in Africa. Participants included ministers and governors, senior government officials, academics, directors of regional training institutes, staff of multilateral institutions, and journalists. There was widespread praise for the establishment of the JAI.*

In his opening remarks, Omar Kabbaj, President of the AfDB, welcomed the increased collaboration on training in Africa between the three founding institutions. IMF Managing Director Michel Camdessus, in his address delivered via videotape, highlighted the IMF's increased emphasis on poverty alleviation and high-quality growth, and referred to the JAI as "a new milestone in the enhancement of economic and financial training opportunities in Africa." Vinod Thomas, Director of the World Bank Institute, who spoke on behalf of World Bank President James Wolfensohn, stressed the complementarities that the three institutions would bring to capacity building in Africa through the JAI. The inaugural ceremony was presided over by Côte d'Ivoire's Prime Minister Daniel Kablan Duncan, who underscored his country's commitment to capacity building and his support for the JAI.

## Role of the state and stabilization

The first session, chaired by Côte d'Ivoire's Minister of Planning Tidjane Thiam, reviewed the changing role of the African state. The speakers (Henock Kiflé of the AfDB, George Abed of the IMF's Fiscal Affairs Department, and Vinod Thomas), emphasized that the state's new role must include ensuring peace and macroeconomic stability, providing and enforcing political

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### News Briefs

99/75: IMF Completes Review and Approves $30 Million Credit Tranche for Ghana
99/76: IMF Announces Conclusion of Staff Negotiations with Turkey
99/77: IMF Completes Brazil Review and Approves Next Credit Tranche
99/79: Features and Conditions of Use of the IMF's Y2K Facility
99/80: IMF Appoints External Audit Firm, Names New External Audit Committee
99/82: IMF Completes PRGF Review for Honduras and Approves $22.5 Million Disbursement

### Public Information Notices (PINs)

99/106: Antigua and Barbuda, November 23
99/107: Palau, November 24
99/109: Lao P.D.R., December 2
99/110: Rwanda, December 6
99/111: Ghana, December 7

### Letters of Intent and Memorandums of Economic and Financial Policies

Rwanda, November 2
Ghana, November 3
The Gambia, November 8
Brazil, November 12
Korea, November 24

### Policy Framework Papers

Rwanda, November 4
The Gambia, November 8

### Concluding Remarks for Article IV Consultations

Switzerland, November 14
Canada, November 16
United Kingdom, November 24

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 member countries and describe the policies that the country intends to implement in the context of its request for financial support from the IMF.

Policy Framework Papers are prepared by the member country in collaboration with the staffs of the IMF and the World Bank. These documents, which are updated annually, describe the authorities' economic objectives and macroeconomic and structural policies for three-year adjustment programs supported by Enhanced Structural Adjustment Facility resources.

Concluding Remarks for Article IV Consultations. At the conclusion of annual Article IV discussions with the authorities, and prior to the preparation of the staff report to the Executive Board, IMF missions often provide the authorities with a statement of their preliminary findings.

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democracy and a level playing field for the private sector, and enhancing equity to ensure the social sustainability of reforms. Abed emphasized that good governance was critical in this regard. Furthermore, governments needed to get the policy fundamentals right and to develop their human and institutional capacity in order to provide the necessary conditions for sustainable, high-quality growth, the best assurance for reducing poverty.

*Participants at the JAI inaugural seminar (from left): G.E. Gondwe, Mamoudou Touré, Saleh Nsouli, Roland Daumont, Chanel Boucher, and Henock Kiflé.*

The session dealing with the challenge of macroeconomic stabilization in Africa was chaired by G.E. Gondwe, Director of the IMF's African Department. Kwesi Botchwey, Director of the Harvard Institute for Development, underscored that macroeconomic imbalances had already been significantly reduced and that the issue now at stake for Africa was that of reducing corruption and alleviating poverty. He expressed concern about what he perceived to be the loss of control by the African countries over their policy agenda to donors and multilateral institutions. Mamoudou Touré, former Director of the IMF's African Department, said, however, that he felt considerable efforts were still needed to consolidate the progress already made on macroeconomic stabilization and to resolve the deep-rooted structural constraints. He argued that it was up to the African countries to be more self-critical and to take the lead in setting their own agenda rather than bemoan the loss of control over it.

## Capacity building

Konan Banny, Governor of the Banque Centrale des Etats de l'Afrique de l'Ouest, chaired the session on capacity building in Africa, which included Ruth Namkabirwa, Uganda's Minister of State; Juliette Bonkoungou, Burkina Faso's President of the Economic and Social Council; and José Sulemane of Mozambique's Ministry of Planning. The speakers agreed that skills and well-functioning institutions were essential to sustained economic development. They voiced the opinion that capacity building should involve African countries themselves more deeply, along with their training institutions. In this regard, participants made suggestions ranging from a change in mentality and increased self-confidence to the need to solicit endowments for capacity-building programs.

The last session, chaired by Denmark's Ambassador Ole Blicher Olsen, focused on the role of international financial institutions in capacity building in Africa. Cyril Enweze (AfDB) emphasized that weak capacity critically hindered development and outlined the steps the AfDB was taking to build up capacity, pointing particularly to the AfDB's involvement in the Partnership for Capacity Building in Africa (PACT) and the JAI. Saleh Nsouli, Deputy Director of the IMF Institute, noted that there was clear evidence that institutions did matter for economic growth, and that the question now was "which institutions mattered most and how did one acquire them." He further highlighted the IMF's role in capacity building through training, technical assistance, and interactions in the context of consultations and/or program design and monitoring. Brian Levy of the World Bank explained how the Bank had reassessed its role in capacity building, drawing on the lessons of the past 15 years. He noted that the emphasis had now shifted to a partnership model, such as the PACT, to establish the appropriate institutional environment.

At the closing luncheon, AfDB Vice President Chanel Boucher expressed the wish that the JAI be known for its high-quality training and its focus on economic development issues relevant to Africa. Boucher was confident that the use of distance learning and the expansion of JAI's activities over time would be key factors in responding to the critical training needs of Africa. JAI Director Michel Dessart expressed appreciation to the participants for their contributions to the inaugural seminar and hoped that the JAI would be able to contribute directly to capacity building in Africa through its training program.

The next issue of the *IMF Survey* will be published on January 10, 2000.