IMF SURVEY

International Monetary Fund
VOLUME 31
NUMBER 2

January 28, 2002

www.imf.org/imfsurvey

In this issue

17
Köhler opens PRSP conference

17
Euro: ready or not

18
Argentine debt deadline extended

20
AEA 2002

21
Additional funds for Brazil

24
GDDS project in Africa

28
Taking stock of IMF transparency

30
Private sector key to Vietnam's growth

and...

23
Recent publications

26
New on the web

27
IMF arrangements

29
Use of IMF credit

30
Selected IMF rates

Poverty conference

Köhler stresses national ownership of reforms

The fight against world poverty is "the most immediate and urgent challenge of the twenty-first century," IMF Managing Director Horst Köhler said at the opening of an IMF–World Bank international conference on poverty reduction strategies on January 14 in Washington. He noted that his travels to Africa, Asia, and Latin America early in his tenure had helped him define the IMF's future role in the fight against world poverty. Developing countries, he stressed, welcomed the IMF's advice, technical assistance, and financial support but believed they themselves had to lead the design of their poverty reduction strategy papers (PRSPs). The IMF has changed, Köhler said, by streamlining conditionality to "make room for true national ownership of reform programs."

Horst Köhler

Following on the heels of a series of regional workshops last fall (see *IMF Survey*, January 14), the 3½ day conference brought together around 200 participants from developing countries, donor agencies, and civil society groups, and the IMF and the Bank, to examine the achievements and challenges of the PRSP approach to date. Their input feeds into a Bank-IMF staff review of the PRSP experience and the IMF staff review of its Poverty Reduction and Growth Facility (PRGF). These reviews will be submitted to the Executive Directors of the institutions in March 2002 and to members of the International Monetary and Financial Committee and the Development Committee during the 2002 spring meetings.

The next issue of the *IMF Survey* will carry a full report on the conference. ■

Economic Forum

Introduction of euro goes smoothly, but jury still out on monetary union

With much press attention from around the world, euro notes and coins were introduced in the 12 member countries of the euro area on January 1, 2002. This event represents the final step in European economic and monetary union (EMU), a process begun in 1990 as a way to revitalize economic integration and as a further step in the achievement of "ever closer union" in Europe. Enough time has passed to make it worthwhile to take stock of some of the issues surrounding this project. What are the prospects for the working of EMU? How do the Europeans view the single currency? Is Europe's hoped-for transformation into an economic powerhouse—one to rival the United States in dynamism as well as size—in the cards?

Giant currency balloons in Marché St. Honoré, Paris, mark the launch of the euro.

An economic forum entitled "The Euro: Ready or Not" was held at the IMF on January 10. The discussion was substantive and lively. The members of the panel were Gerard Grisse, the European Central Bank's (ECB's) observer in the IMF; Moreno Bertoldi, the European Union's (EU's) Economic and Financial Counselor in Washington; American University Professor C. Randall Henning; and Gerard Baker of the *Financial Times*. (Please turn to the following page)

Will monetary union meet expectations?

Grisse: The period of dual currencies appears to be coming to an end much faster than expected.

(Continued from front page, bottom) The forum was moderated by the Director of the IMF's European I Department, Michael Deppler, who noted that the euro project actually goes back at least to the 1970s and that the IMF has followed it closely since its inception. The penultimate stage of EMU occurred on January 1, 1999, when the rates of conversion between the euro and 11 European currencies were fixed. Most transactions continued to be conducted in national currencies until euro notes and coins were put into circulation, but dual pricing was adopted for goods and services, both to help consumers get used to the single currency and to allay their fears that the changeover would enable retailers to apply hidden price increases.

Describing the introduction of the euro as smooth and free of technical glitches, Deppler hailed it as a unique event in monetary history. Popular support for the project is evident, he said, although the project is much more than the changeover from 12 (Greece joined the original 11 countries) currencies to 1. The big question is whether the euro area can boost living standards and create more job opportunities. The record to date is mixed, Deppler said, observing that much will depend on whether the euro area uses its resources efficiently over the longer term.

Argentina wins relief on debt payment

As Argentina struggles to cope with a deepening recession and the depreciation of its currency, the IMF Executive Board agreed on January 16 to extend by one year the due date of a repayment of $933 million under the Supplemental Reserve Facility (SRF) as part of a stand-by credit. Such extensions are allowed under the SRF if repayment would cause undue hardship to a borrower and if the borrower is taking actions to strengthen its balance of payments. On September 7, 2001, the IMF had increased Argentina's stand-by credit to $21.57 billion.

On January 16, Argentina named Mario Blejer, a former IMF economist, Central Bank Governor to replace Roque Maccarone, who had resigned in a dispute over bank controls. Blejer, a national of Argentina, joined the central bank in August 2001 as vice president. Prior to taking up his position at the central bank, he held various posts at the IMF, most recently as Senior Advisor in the Asia and Pacific Department. He was also a Senior Researcher at the Center for Latin American Monetary Studies and taught at New York University, Hebrew University of Jerusalem, and Boston University. Blejer received his undergraduate degree from the Hebrew University of Jerusalem and his Ph.D. in economics from the University of Chicago.

Smooth transition

One of EMU's enthusiastic advocates, Gerard Grisse, declared the title of the forum outdated. "The euro is here," he said, flourishing a brand-new state-of-the-art currency note. Not only has the introduction of the new currency been an impressive success, Grisse said, but the period of dual currencies appears to be coming to an end much faster than expected—after little more than a week instead of two months.

Grisse also viewed as successful the ECB's monetary policy strategy, which had, he said, clearly demonstrated over the past three years the ability to ensure price stability—its main objective. He acknowledged that there was some anecdotal evidence of specific price increases occurring with the introduction of euro notes and coins, but said the ECB expected the impact of the changeover on inflation to be extremely limited, especially given increased competition in the retail sector, consumer awareness, and the commitment of all governments not to increase the level of administered prices. Headline inflation, Grisse said, is currently close to 2 percent and should fall lower this year, in line with the ECB's medium-term monetary policy goal. Grisse concluded by observing that the euro area's monetary policy strategy ensures continuity with the strategies pursued by the 12 national central banks before monetary union. The ability of European central bankers to reach consensus on appropriate strategy for the monetary union, he said, is "a genuine achievement in itself."

Is EMU economically dangerous?

The EU's Moreno Bertoldi observed that, in the beginning, many thought the creation of a single currency in the EU was "politically unrealistic, technically impossible, and economically dangerous." The first two charges have been proved wrong, he said, leaving only the question of whether economic and monetary union is economically dangerous.

Bertoldi began by noting that the introduction of the euro represents a remarkable achievement, particularly in light of the number of countries involved, the size of their economies and populations, and the different institutional settings they started with. Focusing on the medium-term benefits of the euro, he compared current economic indicators with the situation in the early 1990s. Inflation today is lower, after rising in 2000–01 because of a surge in oil import prices and agricultural shocks that affected the European economy; budget deficits are smaller despite the current economic slowdown; and growth is higher and employment creation

stronger, at least until the worldwide deceleration in output growth in 2001 slowed progress.

Benefits to member countries at the macroeconomic level, Bertoldi noted, include increased price transparency and competition in the marketplace, lower transaction costs, and greater financing and investment opportunities in the deeper and more liquid euro-denominated financial market. Last but not least, he said, the euro has been a magnificent shield against intra-European currency instability. All in all, EMU certainly doesn't appear to be economically dangerous.

Even so, Bertoldi said, EMU still faces important challenges, including formulating the correct response to the current difficult economic situation and the need both for further structural reform to address still unacceptably high unemployment and for better coordination of economic policy. Also at the top of the economic policy agenda, he said, are reforms in product, service, and labor markets. But the bottom line for Bertoldi is that the euro area enjoys strong economic fundamentals, which should, in the end, convince the skeptics of the success of the euro project.

So far, so good

Fleshing out the major issues surrounding the single currency, C. Randall Henning examined contrasting predictions made about EMU during the 1990s. On the one hand was the warning that monetary union and efforts to consolidate political integration could lead to civil war in Europe; on the other hand was the prediction that 20 years down the road, Europeans would look back and wonder why it took them so long to adopt a single currency. There isn't a shred of evidence that political disintegration and war are now more likely in Europe, Henning said. Scenario two, however, could come to pass, but "there are still a number of things to do before arriving at a completely happy outcome."

Despite fears about how monetary and fiscal policies under EMU would be conducted, Henning described them as "just about right." The current economic slowdown, however, has raised questions about revising the Stability and Growth Pact, which requires members not to have budget deficits exceeding 3 percent of GDP. Henning hoped members could wait until their fiscal positions improved before embarking on this step.

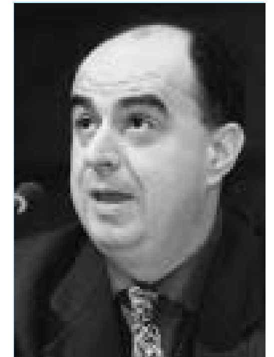
As for central bank independence, Henning noted that the ECB had been alternately characterized as too independent and not independent enough. The important point, he emphasized, is that independence should not be confused with being apolitical. Central banks that are independent for a long time are, in fact, highly political and actively cultivate a constituency for their autonomy. "The ECB would not be wise to rely exclusively and passively on its protected status in EU law, in the treaties and the statute," Henning said, "but will have to cultivate this constituency as adroitly as the U.S. Federal Reserve and the Bundesbank have done." He suggested that the introduction of euro notes and coins will help this process along by creating a direct relationship between the ECB and European citizens.

On the external side, Henning raised what he considered the most intriguing question: Will international monetary cooperation improve or decline with the consolidation of the monetary union? He noted that the United States has made serious policy mistakes in the past and could well do so in the future, but then it would face a greatly changed international environment, with the euro, backed by a large internal market for goods and capital, representing a serious alternative to the U.S. dollar. Tensions between the two currencies are most likely to occur if the United States continues to run large current account deficits. In any case, Henning concluded, U.S.-European cooperation certainly needs to be better than it has been in the past three years.

Bah, humbug!

Gerard Baker, the only self-described skeptic on the panel, enlivened the discussion by throwing cold water on the other panelists' optimism about the prospects of EMU. In his opening salvo, he compared the euphoria surrounding the introduction of euro notes and coins with that of European leaders three years ago, when the euro was expected to become a strong currency that would quickly replace the dollar as the world's main reserve currency and reflect "a strong, vibrant, effective European economy." The value of the euro fell like a stone throughout its first year, he pointed out, and is still about 25 percent below its starting rate.

Baker particularly wanted to address the prevailing sense that the euro is a "uniformly unmixed good thing" and a political success that will improve cooperation within Europe. The first question, he said, is whether monetary union can function in an area that is not an optimal currency area. Europe is even more internally divergent than the U.S. economy, he noted, and does not have the same labor mobility and wage and labor market flexibility. Three years into this project, Baker observed, growth in Europe has remained relatively weak and, although there hasn't been an economic crisis, Germany is close to, if not in, a recession. He concluded that it was impossible to judge the success of the euro project until Europe has experienced a full business cycle and the divergent economies of the area have had to function under a single monetary policy.



Bertoldi: EMU certainly doesn't appear to be economically dangerous.

Henning: There isn't a shred of evidence that political disintegration and war are now more likely in Europe.

Baker: the euro project—having been accepted with resignation rather than enthusiasm—does not have popular support rooted in broad political legitimacy.

A second reason for skepticism about the euro project is that it has not led to the economic transformation that so many had anticipated. In fact, Baker said, there have been few signs of radical structural change and no indication that the Europeans want to create a dynamic, U.S.-style free market system with the attendant disadvantages of inequality and potential instability. Without such changes, though, the euro area's trend growth will remain lower than that of the United States, which could prolong international economic instability. Finally, Baker said, the euro project—having been accepted with resignation rather than enthusiasm—does not have popular support rooted in broad political legitimacy. He cautioned that the euro will require greater economic policy coordination and integration, which will require over time more fiscal policy coordination. For example, Baker noted, if Europe is to have a harmonized tax regime—which many believe will become necessary at some point—the currency union has to have popular political legitimacy.

Euro as international reserve currency?

Following their presentations, the panelists entertained questions, one of which was whether the euro was likely to replace the U.S. dollar as an international reserve currency. While the panelists generally agreed that it would be unconstructive for the United States and Europe to compete for the dominant role, they felt that, in the long term, the euro's presence would lead to a certain rebalancing in the composition of international reserves. Henning suggested that the best way for Europeans to increase the attractiveness of the euro would be by integrating, broadening, and deepening the European financial market. ■

AEA gathering showcases new research on capital controls, crises, trade, and inequality

With their astonishing range of macroeconomic and microeconomic topics, the annual meetings of the American Economic Association (AEA) provide a virtual smorgasbord of contemporary research. This year's gathering, in an unseasonably frosty Atlanta on January 4–6, resists summary, but Jeromin Zettelmeyer, a Senior Economist in the IMF's Research Department, with the help of colleague Eswar Prasad, highlights several notable sessions.

Euro on the world stage

There were few hotter topics at the meeting than the euro and its future as an international currency and as a major player in the world economy. Weighing in on the subject, and largely with upbeat assessments, were Fred Bergsten, Director of the Institute for International Economics (IIE); Otmar Issing, Chief Economist of the European Central Bank; Peter Kenen of Princeton University; Ronald McKinnon of Stanford University; Michael Mussa, former IMF Economic Counsellor and now senior fellow at the IIE; and Dominick Salvatore of Fordham University.

The roundtable discussants agreed that a number of key factors would determine the degree to which the euro becomes widely used outside the euro area. Among the more crucial factors were the speed with which European capital markets integrated and grew, Europe's economic performance (including relative to the United States, as Bergsten emphasized), and the growth of European financial and real linkages with the rest of the world. All thought the dollar would long remain the preeminent invoice currency for international transactions, but the euro's role in financial portfolios would naturally expand as a consequence of diversification. Kenen pointed to an already sharp rise in euro-denominated bond issues and the expansion—albeit a small one—in the euro's role as an international reserve currency.

On balance, the participants concurred, the euro was good news for the international economy, because it was good news for Europe. What risks lie ahead? Salvatore thought the chief one was the possibility of a major dollar-euro misalignment. Issing cautioned that it was too soon to say whether the move from a hegemonic to a bipolar system would be stabilizing or not.

Currency regimes and pricing

The links between monetary and exchange rate policy, firms' pricing strategies, and exchange rate pass-through were the focus of a session chaired by Linda Goldberg of the New York Federal Reserve Bank. Michael Devereux, University of British Columbia, and Charles Engel, University of Wisconsin, argued that exporters will generally want to set prices in the most stable currency. High monetary credibility in the importing country thus favors local currency pricing, implying no short-run pass-through.

In an extensive empirical paper, José Campa of IESE and Linda Goldberg provided some support for the view that countries with low pass-through have stable monetary environments. However, changes in pass-through coefficients in industrial countries seem to be driven mainly by changes in import composition rather than by macroeconomic factors.

Giancarlo Corsetti of Yale University and Paolo Pesenti of the New York Federal Reserve explored the interaction between optimal exchange rate policy and firms' pricing strategies. Pricing in the currency of one's export markets exposes firms' revenues to exchange rate fluctuations, validating a currency union as the optimal monetary arrangement, which in turn validates pricing in the shared currency. Under flexible exchange rates, firms find producer-currency pricing optimal. Output correlation is reduced and this again validates the authorities' choice of monetary regime. Interestingly, although both currency regimes are self-validating, Corsetti and Pesenti find flexible exchange rates superior in terms of efficiency because, in effect, they substitute for flexible prices.

Capital controls, financial liberalization

Capital controls and the effects of capital account liberalization received a good deal of attention at the conference. At least three papers focused on Malaysia's experience with capital controls during 1998–99. Michael Devereux and David Cook, Hong Kong University of Science and Technology, made a theoretical case for controls. They modeled a financial panic as a sudden, externally induced spike in the risk premium (or alternatively, in the effective international interest rate faced by the country) and viewed controls as a tax that could mitigate the impact of this shock on domestic real interest rates by reducing the net returns that investors earn from taking funds out of a country. The amelioration implied by capital controls is especially significant when exchange rates are fixed; however, the overall impact of the shock remains smaller under flexible exchange rates, even in the presence of controls.

Ethan Kaplan and Dani Rodrik of Harvard University presented empirical evidence on the aggregate effects of Malaysia's controls. Was it a success? That depends on the counterfactual, they explained. Contrasting Malaysia's performance with that of other Asian countries during the year *after* controls were imposed suggests the controls were not successful. If economic performance is compared during the *preceding* 12 months, however, Malaysia looks like a considerable success (even controlling for differences in the external environment across the two periods). The latter is the right comparison, according to the authors, because the preceding 12-month period is the time when IMF-supported programs—the presumed alternative for Malaysia—began to be implemented by the other Asian crisis countries. Moreover, financial indicators in Malaysia worsened before the imposition of the controls, suggesting that the main crisis was yet to come. Of course, discussant Rudi Dornbusch pointed out, the later deterioration in Malaysia's indicators may have been driven, in part, by the anticipation of capital controls.

In a closer look at the domestic political economy of Malaysia's capital controls, Simon Johnson, Massachusetts Institute of Technology, and Todd Mitton, Brigham Young University, made the case that capital controls create a "screen for cronyism" that makes it easier for strong politicians to support favored firms. "Only firms connected to Prime Minister Mahathir," they found, "experienced a disproportionate increase in stock prices in September 1998." Following the imposition of capital controls, the stock of politically connected firms rose by about 20 percent more than other similar, but unconnected, firms. Furthermore, among politically connected firms, those that benefited the most had not previously reduced their cost of capital by listing overseas—that is, they stood to gain more from official support.

Two papers by Peter Henry of Stanford University and by Graciela Kaminsky and Sergio Schmukler of George Washington University and the World Bank, respectively, explored the impact of financial liberalization. Using firm-level data, Henry found that opening stock markets to nonresidents in a number of emerging market countries in the early 1990s was associated with significant increases in stock prices and investment by the domestic firms listed on these markets. He did not, however, find that foreign capital necessarily went to the firms whose risk characteristics most warranted investment. Capital account liberalization thus effectively relaxed financing constraints and increased overall inflows, but did not ensure efficient capital allocation. Kaminsky and Schmukler noted that, following financial liberalization, stock market cycles tend to become more pronounced, but

Financial liberalization, Kaminsky and Schmukler also observed, tends to be followed by improvements in financial sector institutions and regulation.

IMF makes available additional $448 million to Brazil

The IMF's Executive Board on January 23, approved its first review of Brazil's performance under its $15.2 billion Stand-By arrangement. So far Brazil has drawn $4.6 billion from the IMF under this arrangement, which was approved on September 14, 2001 to help the Brazilian economy cope with shocks and to promote continued, stable growth. Completion of the review allows Brazil to draw, if needed, an additional $448 million.

Following the Executive Board Meeting on Brazil, IMF Managing Director Horst Köhler said "the maintenance of strong macroeconomic policies and the support of the IMF have enabled Brazil to withstand a series of external and domestic shocks in 2001, including an energy shortage." He also noted that "financial market variables have recovered significantly from the lows reached in the wake of the terrorist attacks of September 11," but cautioned that the external environment remained volatile.

over the long run the amplitude of these cycles is reduced. Financial liberalization, they also observed, tends to be followed by improvements in financial sector institutions and regulation.

Financial crises revisited

At least two papers renewed the debate on the effect of monetary policy on exchange rates during the Asian currency crisis. Research by Robert Dekle, Chiang Hsiao, and Siyan Wang—all from the University of Southern California—generally supported the conventional view that tight monetary policy stabilizes the exchange rate. Guiglielmo Caporale and Andrea Cipollini of South Bank University and Panicos Demetriades of the University of Leicester examined the same question, but their results bolstered the "revisionist view"—that tight money in fact encouraged the free fall of the exchange rate. The sharply divergent findings are driven mainly by different "identifying assumptions"—that is, by different approaches to disentangling cause and effect of monetary policy.

Steve Kamin of the Board of Governors of the U.S. Federal Reserve presented a new paper testing for the presence of moral hazard resulting from IMF-led international bailouts. Unlike previous papers that tested for moral hazard during the period between the Mexican bailout and the Russian crisis, Kamin asked if there was evidence of moral hazard today. He compared emerging market bond spreads and capital flows in the recent past to those prevailing prior to the Mexican crisis, when, he argued, moral hazard could not have existed because the size of Mexico's bailout had no precedent. His results suggested that moral hazard was not currently a problem. In particular, controlling for macroeconomic fundamentals (proxied by credit ratings), spreads are higher and more dispersed today than they were before the Mexican crisis.

Free trade feuds

Robert Feenstra of the University of California, Davis, chaired a stimulating session on free trade versus protectionism. Does the strong cross-country correlation between the average level of tariffs and cumulative growth performance during 1870–1913 indicate that protectionism benefited growth? Not at all, argued Douglas Irwin of Dartmouth College. This apparent relationship, he suggested, is driven by three outliers—the United States, Canada, and Argentina—that enjoyed high growth while maintaining relatively high tariffs. In each case, growth was attributable to factors unrelated to high tariffs, and these high average tariffs were not necessarily protectionist. They were imposed mainly on consumer goods, while intermediate goods often went tariff-free. These countries had low population densities and relied on tariffs for revenue reasons , Irwin said. It was the abundance of land, which allowed them to attract high levels of immigration and foreign investment, rather than tariffs that spurred growth.

Don Davis and David Weinstein of Columbia University asked whether large bilateral trade balances were a signal of protection. They estimated expected bilateral trade balances on the basis of macroeconomic factors and examined "triangular trade" (countries with high demand for particular goods running deficits with countries with a large supply of such goods, as the United States did with Japan with regard to automobiles). These standard theories explained only a small portion of the observed bilateral trade balances, they noted, leaving something of a puzzle. But don't blame protectionism just yet, Weinstein said; other possible explanations need to be explored.

Finally, papers by Arvind Panagariya, University of Maryland, and by Jagdish Bhagwati, Columbia University, and T.N. Srinivasan, Yale University, looked at the relative merits of protection and free trade. Panagariya surveyed the literature on the costs of protection, noting that, while the marginal cost of protection was small at low levels of protection, at high levels, protection could have large welfare costs through both conventional distortionary effects and other channels, such as scale economies and disappearing products. Bhagwati and Srinivasan explored the nexus between trade and poverty in poor countries and found little basis for the view that trade accentuated poverty. To the extent that trade narrows differences in the prices of production factors across countries, this would tend to raise wages in poor countries, and the positive effects of trade on growth should help boost income levels in general. While models can be built to show that growth is bad for the poor, the experiences of countries like India and China, they said, offer strong evidence to the contrary.

Bhagwati and Srinivasan explored the nexus between trade and poverty in poor countries and found little basis for the view that trade accentuated poverty.

Inequality and growth

Several papers took a hard look at the relationship between growth and inequality. Klaus Deininger, World Bank, and Lyn Squire, Global Development Network, presented new data on income inequality and some negative correlations between inequality and growth. Danny Quah of the London School of Economics noted that the macroeconomic factors that determine cross-country patterns of growth and convergence are crucial for understanding the evolution of the world distribution of income. He also argued that cross-country panel studies shed little light on the true relationship between inequality and growth. In fact, he said, inequality may be irrelevant for economic growth. Michael Keane, Yale University, and Eswar Prasad, IMF, presented some suggestive evidence from

transition economies that rising inequality could hinder institutional and macroeconomic reforms and, consequently, economic growth by undermining the social and political consensus needed to implement market-oriented reforms.

Oded Galor, Brown University, and Omer Moav, Hebrew University, attempted to reconcile conflicting empirical evidence. In their model, inequality could promote growth, while the engine of growth is rapid physical capital accumulation. But as human capital accumulation becomes more important, inequality can have a negative effect on growth.

In a related paper, the same authors interpreted the gradual disappearance of class structure in Europe, arguing that capital and skill (human capital) are complements in production. Thus, capital accumulation intensifies the relative scarcity of skill. However, because skill is embodied in its owner, the only way to "accumulate" human capital is to spread it among more people . When credit market imperfections prevent private financing of schools, capitalists have the incentive to invest in public schools. As workers become more skilled, their incomes rise, they begin to save, and class differences eventually disappear. Galor and Moav suggested this mechanism was indeed at work during the late nineteenth and early twentieth centuries. ■

Jeromin Zettelmeyer
IMF Research Department

Recent publications

Working Papers ($10.00)

01/195: *Globalization and Firms' Financing Choices: Evidence from Emerging Economies*, Sergio Schmukler and Esteban Vesperoni
01/197: *Limiting Currency Volatility to Stimulate Goods Market Integration: A Price-Based Approach,* David Parsley and Shang-Jin Wei
01/198: *Sources of Inflation in Developing Countries*, Prakash Loungani and Phillip L. Swagel
01/199: *Regional Disparities and Transfer Policies in Russia: Theory and Evidence*, Era Dabla-Norris and Shlomo Weber
01/200: *Risk Diversification in the Credit Portfolio: An Overview of Country Practices,* JoAnne Morris
01/201: *Financial Stability and Fiscal Crises in a Monetary Union,* Samir Jahjah
01/202: *Corporate Restructuring in Japan: An Event-Study Analysis,* Jorge Chan-Lau
01/203: *Mind the Gap: What Is the Best Measure of Slack in the Euro Area?* Kevin Ross and Angel J. Ubide Querol
01/204: *The Impact of Corporate Governance Structures on the Agency Cost of Debt*, Jorge Chan-Lau
01/205: *Central Bank Independence and the Design of Fiscal Institutions,* Francesca Castellani and Xavier Debrun
01/206: *Quality Controls, License Transferability, and the Level of Investment*, Kala Krishna, Ling Hui Tan, and Ram Ranjan
01/207: *Uncovered Interest Parity in Crisis: The Interest Rate Defense in the 1990s*, Robert P. Flood and Andrew K. Rose
01/208: *Government Spending, Legislature Size, and the Executive Veto*, Reza Baqir
01/209: *The Treatment of Nonperforming Loans in Macroeconomic Statistics*, Adriaan M. Bloem and Cornelis N. Gorter
01/210: *Convertibility Risk: The Precautionary Demand for Foreign Currency in a Crisis*, Stanley Black, Charis Christofides, and Alexandros T. Mourmouras
01/211: *Systemic Weaknesses of Budget Management in Anglophone Africa*, Ian C. Lienert and Feridoun Sarraf
01/212: *Legal Central Bank Independence and Inflation in Latin America During the 1990s,* Luis I. Jacome Hidalgo
01/213: *A Model of the Joint Distribution of Banking and Exchange-Rate Crises,* Robert P. Flood and Nancy P. Marion
01/214: *Pension Reform and the Fiscal Policy Stance,* George A. Mackenzie, Philip R. Gerson, Alfredo Cuevas, and Peter S. Heller
01/215*: An Investigation of Output Variance Before and During Inflation Targeting,* Francisco de Asis Nadal De Simone
01/216: *Import-Reducing Effect of Trade Barriers: A Cross-Country Investigation*, Qing Wang
02/1: *The Impact of Changes in Stock Prices and House Prices on Consumption in OECD Countries*, Alexander Ludwig and Torsten Sløk
02/2: *The Austrian Theory of Business Cycles: Old Lessons for Modern Economic Policy?* Stefan E. Oppers
02/3: *Currency Crises and Uncertainty About Fundamentals,* Alessandro Prati and Massimo Sbracia

IMF Staff Country Reports ($15.00)

02/1: Mali: Selected Issues and Statistical Annex
02/2: Mali: 2001 Article IV Consultation, Third Review Under the Poverty Reduction and Growth Facility
02/3: Burkina Faso: Fourth Review Under the Poverty Reduction and Growth Facility and the Third Annual Program
02/4: Vietnam: 2001 Article IV Consultation and First Review Under the Poverty Reduction and Growth Facility and Request for Waiver and Modification of Performance Criteria
02/5: Vietnam: Selected Issues and Statistical Appendix

Publications are available from IMF Publication Services, Box X2002, 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.

Interview with Carol Carson and Jan Bové

New project will help African countries identify and address statistical needs

It's hard to solve a problem whose dimensions can't be grasped. And for many countries, an essential step toward redressing poverty and integrating with the world economy is a statistical system capable of assessing domestic needs, monitoring progress toward a goal, and exchanging reliable data with the global community. In recent years, the IMF's Statistics Department has been on the front lines helping countries do just that. Carol Carson, Director of the IMF's Statistics Department, and Jan Bové, Chief of the General Data Dissemination System Unit, discuss one of the Department's latest projects—an ambitious effort to help 14 anglophone African countries improve their statistical systems through the guidance provided by the IMF's General Data Dissemination System (GDDS, see box, page 25).

Jan Bové (left) and Carol Carson are overseeing an ambitious project to improve statistical capacity in Africa.

IMF Survey: What is the anglophone Africa project?

Carson: Using the GDDS as a framework, the project seeks sustainable improvement in statistical capacity in 14 African countries—Botswana, Eritrea, Ethiopia, Kenya, Lesotho, Liberia, Malawi, Namibia, Nigeria, Sierra Leone, Sudan, Swaziland, Zambia, and Zimbabwe—that have been invited to participate.

The project takes an integrated approach to building statistical capacity. It is designed to identify strengths and weaknesses in current systems, develop plans to make improvements, and provide technical assistance to help countries implement their plans. The project will be implemented in two stages. The first phase will help countries develop their GDDS metadata—which is a description of current practices as well as plans for improvement—and the second phase will help countries realize their plans.

The heart of the project is the GDDS framework, which is a compendium of good statistical practices. The project will use a regional approach and is fortunate to have the very strong financial support of the United Kingdom's Department for International Development (DFID). All in all, the project is quite a large undertaking; it will involve assistance from project staff, the World Bank, and other international, regional, and bilateral providers of technical assistance.

IMF Survey: To what extent does this project represent a new direction for the Statistics Department?

Carson: Rather than a new direction, it pulls together several different aspects of our experience in recent years. Technical assistance to help countries implement the IMF's various standards and codes initiatives is now a part of our mandate. And experience has taught us that long-term projects really pay off in terms of building up statistical capacity and that anchoring technical assistance in a region gives us focus.

Bové: We have increasingly been working toward a systemwide approach, too. The anglophone Africa project will help countries develop entire statistical systems for their central banks, ministries of finance, and statistical agencies, and it will cover, as the GDDS does, a broad range of macroeconomic and sociodemographic statistics.

IMF Survey: How did the project come about?

Bové: Our work with countries on the GDDS has long benefited from strong support from the Japanese authorities. In this case, however, a number of other things came together rather fortuitously. We were looking at the possibility of funding large regional projects, and DFID indicated its willingness to provide substantial support for a large project that would integrate the framework of the GDDS and the technical assistance associated with realizing improvements.

We were already working on a large regional project for the francophone countries, with the BCEAO serving as a regional anchor. Cyrus Rustomjee, one of the IMF's Executive Directors for Africa and a very strong supporter of the GDDS, approached us about his constituents' interest in a project combining technical assistance with the GDDS framework. And all of this happened just as IMF Managing Director Horst Köhler championed the New African Initiative and as the IMF placed increased emphasis on poverty reduction strategy papers (PRSPs), which relied on improved statistics to analyze the sources of poverty and track countries' progress in combating it. The confluence of all four of these things provided the launching pad for this project.

IMF Survey: Why a regional approach?

Carson: A regional approach offers synergies. We have to leverage very limited resources, so efficiencies are important. We also found, for example, that participants learned a great deal from each other in regional workshops as they built plans to improve their statistical systems. And a regional approach allows you to draw on

local expertise. The anglophone Africa project will have a regional resident advisor and a dedicated group of short-term advisors who will build up familiarity with the region. In addition, several regional groups work with various subsets of the countries invited to participate. This project can serve as a catalyst for a broader dialogue on statistical systems in the region.

IMF Survey: How many of the project's potential participants are eligible for the IMF's Poverty Reduction and Growth Facility (PRGF)? And does the IMF have the expertise to help countries with the sociodemographic statistics that PRSPs require?

Carson: Virtually all of the countries invited to participate are eligible for PRGFs. People may associate the IMF's technical assistance with central banks and finance ministries, but one of the distinguishing features of the GDDS is that it includes sociodemographic data. Why? Because we saw that countries working hard to develop entire statistical systems needed to pull different kinds of data under a single umbrella. Jan was involved in some of the very early work on sociodemographic data—he helped transform a bare outline into our newly published *GDDS Guide* on the subject. He was also instrumental in getting experts on sociodemographic data involved in the development of the GDDS.

Bové: Sociodemographic data are really the World Bank's area of expertise. Its staff took the lead in developing the guidance for compiling and publishing sociodemographic data, and they helped countries prepare the metadata in this area. World Bank staff also participate in our workshops and country work. They have been very involved in the anglophone Africa project right from the start.

IMF Survey: Do the participating countries have similar needs?

Bové: Some have relatively advanced statistical systems and are looking at this process as a stepping stone to subscribing to the more demanding Special Data Dissemination Standard, which would help position them to participate in international capital markets. At the other extreme are countries that have just emerged from wars. Their statistical systems and databases are entirely shattered. The GDDS framework can help them set priorities for rebuilding their statistical systems, and the project will combine this with substantial technical assistance.

A preparatory meeting in early December explained what the GDDS could offer, but it also laid out what the project would require from the participants. Any time you want to improve your system, you are talking about making an investment. Some resources will come from abroad, but some resources must be gener-

One of the distinguishing features of the GDDS is that it includes socio-demographic data.
—Carol Carson

GDDS—the quiet achiever

When countries set out to improve their statistical systems, they embark on a task that is often formidable. Change requires multiple steps: assessment of the current system, recognition of deficiencies, plans for improvement, priorities consistent with resources, and a realistic timetable for implementation. Oftentimes, the most crucial step is the most basic one—recognition within the statistical agencies that their way of operating—"their culture"—must change. And this happens only when there is a willingness and a commitment to do so.

The IMF designed the General Data Dissemination System (GDDS) to provide a framework for statistical development, particularly for countries with less advanced systems. It sets out standards for coverage, periodicity, timeliness, data quality, access to data, and data integrity. Member countries that have chosen to participate in the GDDS are committed to follow a framework that embodies international good practice for each of these dimensions.

In itself, such a commitment represents a major step, because it involves a public statement by the authorities that they intend to bring their national systems in step with the global statistical community and that they may thus be held accountable for their progress. Monitoring this progress involves many parties. As the sponsor of the GDDS, and as the host of the Dissemination Standards Bulletin Board (DSBB; www.dsbb.imf.org/gddsweb) where information on countries' current statistical practices and associated plans for improvement (also referred to as "GDDS metadata") are posted for the world to see, the IMF plays its part in encouraging and prompting countries to maintain a course of continuous improvement.

In the spirit of greater transparency, several participating countries also post descriptions of their current system and plans for improvement on national websites, often in national languages. This allows interested parties to engage the national authorities in a discourse on their statistical systems and the degree to which these systems meet users' needs.

As a part of their commitment to the GDDS, countries are expected to update their metadata at least annually and post these updates on the IMF's DSBB. Contributions to the Recent Improvements and the Plans For Improvements sections of the metadata on the DSBB are available to all interested parties.

For more information about the GDDS's objectives and operational features, see the GDDS Guide, which is available on the DSBB on the IMF's website (http://dsbb.imf.org).

ated domestically, and this will constitute a considerable commitment for some countries. Organizing a statistical system and managing improvements are no easy tasks.

CARSON: To begin with, resources are needed to write up comprehensive descriptions of existing systems across data categories and to identify technical assistance needs. This is why you want to do a project like this in phases. The first step is positioning yourself to take advantage of technical assistance. Then you must identify the help you need and determine how you can make the best use of it.

Virtually all of the countries that participated in the preparatory session have indicated their interest in the next step—a workshop in Namibia in late February to help countries prepare their metadata.

IMF SURVEY: Once needs are identified, how will proposed improvements be implemented?

BOVÉ: We envision a collaborative process. Participants in the preparatory meeting stressed two things: they want their own priorities to go into the plans and they want to proceed at their own pace. Mindful of these two guidelines, a dedicated group of experts will help countries make progress toward the guidance the GDDS provides.

IMF SURVEY: Will two years be enough?

BOVÉ: We have funding from DFID for two years. Countries will meet the GDDS guidance goals on different timetables, but most countries will probably need more than two years. At the end of two years, we will have to see how we can continue to help.

IMF SURVEY: It is striking how much consensus there is now on the role that good statistics can play in poverty reduction.

CARSON: That is our sense, and the preparatory meeting certainly confirmed it was on everyone's mind. Some participants were already working on poverty reduction strategy papers. They knew they had a lot of work to do in terms of the statistics needed to support poverty reduction efforts.

BOVÉ: The poverty reduction strategy paper leaves it to each country to decide which indicators it would like to compile. This approach really puts the country in the driver's seat and is very consistent with the way we have conceived the GDDS.

CARSON: The GDDS project is truly country-driven. It is on the country's own time frame, with its own priorities, and over the long term. It's also very important that the project provide technical assistance in support of the GDDS framework. The framework can go only so far on its own merits.

IMF SURVEY: At the end of two years, then, how would you define success?

CARSON: With a two-year time frame, you have to be realistic. Building statistical capacity is always a long-term process. But we would define success as observable improvements in a number of countries. These improvements are important in themselves but can also

The poverty reduction strategy paper leaves it to each country to decide which indicators it would like to compile.
–Jan Bové

Available on the web (www.imf.org)

Press Releases

02/1: IMF Managing Director Köhler Names Abdoulaye Bio Tchane Head of African Department, January 10

02/2: IMF Extends Argentina's SRF Repayment by One Year, January 16 (see page 18)

02/3: IMF Approves $7 Million Augmentation of PRGF Arrangement for Chad and $6.8 Million Disbursement, January 16

02/4: Cambodia Accepts Article VIII Obligations, January 17

News Briefs

02/1: IMF Welcomes Turkey's Bank Recapitalization Scheme, January 11

02/2: IMF Approves $63 Million Tranche Under Stand-By Credit to Federal Republic of Yugoslavia, January 11

02/3: IMF Completes First Review of Stand-By Arrangement with Brazil (see page 21)

02/4: IMF Approves $15 Million Tranche Under Stand-By Credit for Lithuania, January 16

Public Information Notices

02/2: IMF Concludes 2001 Article IV Consultation with Mali, January 8

02/3: Managing Director Reports to IMF Board of Governors on Possible General SDR Allocation, January 10

Speeches

Introductory Remarks, International Conference on Poverty Reduction Strategies, Horst Köhler, Washington, D.C., January 14 (see page 17)

Transcripts

Press Briefing (Teleconference) on Argentina by Anne Krueger, IMF First Deputy Managing Director, January 11

Press Briefing by Thomas C. Dawson, Director, IMF External Relations Department, January 17

Letters of Intent and Memorandums of Economic and Financial Policies*

Macedonia, January 10

Chad, January 17

Lithuania, January 17

Report on the Observance of Standards and Codes*

Armenia, January 16

*Date posted.

demonstrate to the authorities that the approach works and is worthy of further support.

Bové: Countries will also have their metadata posted on the web on the IMF's Dissemination Standards Bulletin Board. So, it will be for everyone to see whether these countries make progress over time.

IMF Survey: **Will it be obvious, too, that the culture of the statistical offices is changing?**

Carson: Part of that culture is evident in statistical law—whether it guarantees independence, ensures that all data meeting a certain standard are published, and avoids political interference. The GDDS contains concrete, monitorable indicators that allow you to see these changes and have confidence that the underlying culture has changed as well. ■

Stand-By, EFF, and PRGF arrangements as of December 31

Member	Date of arrangement	Expiration date	Amount approved	Undrawn balance
			(million SDRs)	
Stand-By				
Argentina[1]	March 10, 2000	March 9, 2003	16,936.80	7,180.49
Brazil[1]	September 14, 2001	December 13, 2002	12,144.40	8,468.82
Croatia	March 19, 2001	May 18, 2002	200.00	200.00
Gabon	October 23, 2000	April 22, 2002	92.58	79.36
Latvia	April 20, 2001	December 19, 2002	33.00	33.00
Lithuania	August 30, 2001	March 29, 2003	86.52	86.52
Panama	June 30, 2000	March 29, 2002	64.00	64.00
Peru	March 12, 2001	March 11, 2002	128.00	128.00
Romania	October 31, 2001	April 29, 2003	300.00	248.00
Serbia/Montenegro	June 11, 2001	March 31, 2002	200.00	100.00
Sri Lanka	April 20, 2001	June 19, 2002	200.00	96.65
Turkey[1]	December 22, 1999	December 21, 2002	15,038.40	3,299.44
Uruguay	May 31, 2000	March 31, 2002	150.00	150.00
Total			**45,573.70**	**20,134.28**
EFF				
Colombia	December 20, 1999	December 19, 2002	1,957.00	1,957.00
Indonesia	February 4, 2000	December 31, 2002	3,638.00	2,477.20
Jordan	April 15, 1999	April 14, 2002	127.88	60.89
Kazakhstan	December 13, 1999	December 12, 2002	329.10	329.10
Ukraine	September 4, 1998	August 15, 2002	1,919.95	726.95
Total			**7,971.93**	**5,551.14**
PRGF				
Armenia	May 23, 2001	May 22, 2004	69.00	59.00
Azerbaijan	July 6, 2001	July 5, 2004	80.45	72.40
Benin	July 17, 2000	July 16, 2003	27.00	12.12
Bolivia	September 18, 1998	June 7, 2002	100.96	37.10
Burkina Faso	September 10, 1999	September 9, 2002	39.12	11.17
Cambodia	October 22, 1999	October 21, 2002	58.50	25.07
Cameroon	December 21, 2000	December 20, 2003	111.42	79.58
Central African Rep.	July 20, 1998	January 19, 2002	49.44	24.96
Chad	January 7, 2000	January 6, 2003	42.00	18.20
Djibouti	October 18, 1999	October 17, 2002	19.08	10.00
Ethiopia	March 22, 2001	March 21, 2004	86.90	52.14
Georgia	January 12, 2001	January 11, 2004	108.00	81.00
Ghana	May 3, 1999	May 2, 2002	228.80	105.17
Guinea	May 2, 2001	May 1, 2004	64.26	51.41
Guinea-Bissau	December 15, 2000	December 14, 2003	14.20	9.12
Honduras	March 26, 1999	December 31, 2002	156.75	48.45
Kenya	August 4, 2000	August 3, 2003	190.00	156.40
Kyrgyz Republic	December 6, 2001	December 5, 2004	73.40	61.68
Lao People's Dem. Rep.	April 25, 2001	April 24, 2004	31.70	27.17
Lesotho	March 9, 2001	March 8, 2004	24.50	17.50
Madagascar	March 1, 2001	February 29, 2004	79.43	56.74
Malawi	December 21, 2000	December 20, 2003	45.11	38.67
Mali	August 6, 1999	August 5, 2003	51.32	19.65
Mauritania	July 21, 1999	July 20, 2002	42.49	12.14
Moldova	December 21, 2000	December 20, 2003	110.88	92.40
Mongolia	September 28, 2001	September 27, 2004	28.49	24.42
Mozambique	June 28, 1999	June 27, 2002	87.20	25.20
Nicaragua	March 18, 1998	March 17, 2002	148.96	33.64
Niger	December 22, 2000	December 21, 2003	59.20	42.28
Pakistan	December 6, 2001	December 5, 2004	1,033.70	947.54
Rwanda	June 24, 1998	April 30, 2002	71.40	9.52
São Tomé & Príncipe	April 28, 2000	April 27, 2003	6.66	4.76
Senegal	April 20, 1998	April 19, 2002	107.01	19.54
Sierra Leone	September 26, 2001	September 25, 2004	130.84	84.00
Tanzania	April 4, 2000	April 3, 2003	135.00	55.00
Vietnam	April 13, 2001	April 12, 2004	290.00	207.20
Zambia	March 25, 1999	March 28, 2003	254.45	149.63
Total			**4,257.62**	**2,781.97**
Grand total			**57,803.25**	**28,467.39**

[1]Includes amounts under Supplemental Reserve Facility
EFF = Extended Fund Facility.
PRGF = Poverty Reduction and Growth Facility.
Figures may not add to totals owing to rounding.

Data: IMF Treasurer's Department

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

Economic Forum

Taking stock of IMF transparency

In recent years, the IMF has gone through almost a revolution in its transparency and openness, making a sustained effort to provide the public with fuller and more timely information about itself and its 183 member countries. This move has been motivated by an increasing recognition on the part of the international community that greater transparency helps the global economy function better. It has also been prompted in part by outside pressure from nongovernmental organizations, academics, and parliamentarians. The IMF's efforts have won praise from supporters and critics alike, but they have also raised many questions. How truly revolutionary are these initiatives? How popular are they among governments and civil society? Can there be too much transparency, as well as too little?

As the IMF goes through a stocktaking exercise that will culminate in an Executive Board review of transparency in April, it held an economic forum on the topic on December 13. Panelists included Ydahlia Metzgen, Division Chief in the IMF's Policy Development and Review Department; Robert Wescott, economic consultant; Martin Gruenberg, Senior Counsel to the U.S. Senate Banking Committee; and Daniel Bradlow, Professor of Law at American University. The panel was chaired by Thomas Dawson, Director of the IMF's External Relations Department.

Transparency is the IMF's "understated revolution" of the past few years.
–Ydahlia Metzgen

IMF opens its doors

Thomas Dawson opened the forum by noting that over the past decade, expectations of how the IMF should conduct its external relations have changed markedly, resulting in a dramatic increase in information made public. "Information once guarded as closely as state secrets is now routinely published. And fears that the release of this information would shake the pillars of modern civilization seem to have been unfounded." Financial markets are happy to receive a steady stream of information from the IMF and member countries—much preferring it to the old system in which they would suddenly receive a deluge of information, at times destabilizing markets and countries.

As evidence of this openness, Dawson cited the approximately 130 Article IV consultations—or annual health checkups on countries—that the IMF conducted in 2001, which were then discussed at the Executive Board and summarized. Of these, 80 percent of the summaries were posted on the IMF's website, and in nearly half the cases, the complete staff reports were published. Moreover, hits on the IMF's website now average about four million a month. Even so, more can be done, and pressure to do so will continue. But, Dawson said, there are "limits on the extent to which internal discussions within the IMF can be made public." There is a doctor-patient or lawyer-client element to the relationship between the institution and its members, and the effectiveness of that relationship depends to some extent on that confidentiality. Nonetheless, the IMF welcomes its decisions being "reviewed honestly, independently, and openly"—one reason why it recently set up the IMF's Independent Evaluation Office.

Transparency as philosophy

The IMF's Ydahlia Metzgen—formerly of the Central Bank of Barbados, the New York Federal Reserve, and Merrill Lynch and other private sector institutions—noted how much IMF transparency had expanded in recent years, observing that it "goes beyond the publication of documents, the increased transparency of our operations or our policy advice to members, and our members' policies to a philosophy and an approach to how we do business in this organization." In effect, she said, it is the IMF's "understated revolution" of the past few years. One major change, which goes to the heart of transparency, she said, is providing a context for evaluating information. A prime example is the initiative on standards and codes, which is aimed at helping policymakers and markets assess the information that member countries provide to the IMF and that the IMF provides to others. In fact, advancing the work in this area—which is part of an international effort to establish best practices and codes of conduct—will be a key focus of the IMF in the years ahead.

But who benefits?

Robert Wescott, now in the private sector, stirred the pot by questioning just how beneficial transparency was, or at least whom it benefited. His viewpoint was no doubt influenced by several years in the IMF's Research Department in the late 1990s and time spent at the National Economic Council and the Council of Economic Advisers under former U.S. President Bill Clinton. He suggested that, although transparency is beneficial, in that greater openness and improved country data could give confidence to international investors and policy issues could be better understood by the public, it is "a bit overrated." Because capital markets are prone to excesses, he said,

even in the largest industrial countries, improving transparency can't always prevent crises. "As fast as regulators can think of loopholes to close and of ways to strengthen standards," someone out there can think of a way to get around them. But Wescott expressed little faith in early-warning systems either, putting a higher value on expert human judgment to evaluate market conditions. As for policymaking, he was skeptical that more transparency would help industrial economies much but thought it was quite likely to help developing countries make significant progress in institutional development.

Wescott praised in particular the issuance of public information notices—the summaries of Article IV and policy discussions at the Executive Board—and urged the IMF to focus on closing the gap between what it actually thinks and discusses within the institution and what it writes and distributes to the public. But he was skeptical that greater openness would satisfy the "antiglobalization crowd," which he characterized as "basically an anticapitalist movement."

U.S. congressional staff member Martin Gruenberg said that the transparency issue is key to the IMF's legitimacy as an institution and, in the long run, is fundamental to its viability, effectiveness, and even survival. He noted that many U.S. senators and representatives have an ambivalent attitude toward the IMF: they see it as essential to the functioning of the international monetary system but are wary of it as a provider of bailouts to countries, banks, and investors that don't need them. Some members of Congress also think that the IMF's actions infringe on the sovereignty of its member countries and wonder if its "extraordinary influence" can be justified. That is why Congress has put so much pressure on the institution in recent years to open up, at times in a "somewhat blunt" manner. But this pressure has paid off, Gruenberg said, with the IMF undergoing a "cultural shift" on the openness and transparency front, although significantly more can be done.

Daniel Bradlow, presenting an academic viewpoint, applauded the IMF for increasing access to information about its operations. But he emphasized that transparency is about more than disclosure of information; it is also about the way in which institutions make decisions and conduct their operations. The IMF has made some progress in this area, too, with the establishment of the Independent Evaluation Office and greater consultation with a broader range of actors on its operations and policy papers. But two key problems must be addressed.

First, access to IMF information needs to become more predictable and equitable. The IMF's current policy on the distribution of country reports to the public is conditional, he said, because individual member countries have to consent to the disclosure of all reports. Second, the IMF needs a clear legal or regulatory framework to govern its operating rules and procedures. "It's very difficult," he said, "for any outsider to understand how the IMF conducts its business or makes decisions and policies, or to know whom to hold accountable for any particular decision or action." For example, there aren't clear rules governing which policy proposals should be submitted for public consultation and how public comments should be handled.

During the question-and-answer period, Jerry Levinson—a professor of international law at American University and a member of the U.S. Congress's Meltzer Commission—said that the fundamental issue, "in perhaps exaggeratedly broad terms, is that the IMF, the World Bank, and the U.S. Treasury seem to propose a policy framework for borrowing countries that no industrial country would be willing to accept as the basis of its own policies." Moreover, he suggested that the debate over transparency "too often becomes a means of avoiding the debate over the substance" of this economic paradigm.

In response, Bradlow suggested that the underlying problem with IMF policies centered on power relations in the IMF—namely, the influence of the major industrial countries, especially the United States. As long as those structures exist, he said, the chances of getting policies that are responsive to the needs of some of the world's poorest people "are extremely unlikely."

Dawson agreed with Levinson that transparency can divert attention from the real substance, but the flip side is that many of the IMF's critics assume on impulse that a lack of sufficient transparency means that the IMF is hiding something. He hoped that both sides would learn to trust each other so that they could spend their time debating the substance. ■

The transparency issue is key to the IMF's legitimacy as an institution and, in the long run, is fundamental to its viability, effectiveness, and even survival.
–Martin Gruenberg

Members' use of IMF credit
(million SDRs)

	During December 2001	January–December 2001	January–December 2000
General Resources Account	**2,402.92**	**23,761.62**	**7,178.02**
Stand-By	2,402.92	23,019.62	5,794.31
SRF	578.40	13,240.71	1,735.20
EFF	0.00	742.00	1,266.79
CFF	0.00	0.00	0.00
EMER	0.00	0.00	116.93
PRGF	**176.11**	**872.64**	**492.50**
Total	**2,579.03**	**24,634.26**	**7,670.52**

SRF = Supplemental Reserve Facility
EFF = Extended Fund Facility
CFF = Compensatory Financing Facility
EMER = Emergency Assistance
PRGF = Poverty Reduction and Growth Facility
Figures may not add to totals shown owing to rounding.

Data: IMF Treasurer's Department

Vietnam's private sector holds key to higher growth and poverty reduction

Following nearly a decade of rapid economic growth and significant poverty reduction, Vietnam's economy floundered in the late 1990s, hurt by the Asian financial crisis and constrained by structural weaknesses. In step with the region, Vietnam's economy rebounded in 1999 but has yet to reach its growth potential. With IMF support, Vietnam is now embarking on a comprehensive reform agenda and is intent on rapidly increasing per capita incomes by boosting private investment and increasing competitiveness. Initial measures are promising, but much remains to be done.

Hanoi goes to work.

The Asian financial crisis of 1997–98 took its toll on Vietnam and spotlighted structural weaknesses that constrained economic growth and posed macroeconomic risks. At the height of the crisis, foreign direct investment, on which Vietnam had come to rely, dried up while exports faltered. Real GDP growth bottomed out at 3½ percent in 1998, but a well-diversified export base and rising oil production allowed the country to do better than most of its neighbors.

Aided by a strong export performance and record agricultural harvests, Vietnam's growth picked up in 1999 and 2000. Domestic demand also strengthened, as, among other things, private investment increased in line with improved business sentiment and more accommodative macroeconomic policies. In the face of the current global downturn, however, exports have weakened and the country's rate of growth is expected to have declined slightly in 2001.

Even when external prospects improve, however, Vietnam will need to do more to boost growth and remain competitive. Two elements are central to achieving these goals: establishing a fair business environment for all sectors of the economy, domestic and foreign, and setting the right conditions for labor-intensive investment in private businesses (most of them small or medium-sized) and foreign and joint ventures. This will require tackling structural weaknesses—notably a heavy reliance on inefficient state-owned commercial banks and enterprises.

Finding a new path to growth

Vietnam took the first step toward implementing a new growth strategy in early 2000 when it liberalized its trade regime by removing quantitative restrictions on several key imports. The authorities also received legislative sanction to reduce the licensing and regulatory burdens on private businesses and foreign and joint ventures. It was clear, however, that comprehensive and longer-term reforms were needed and that the authorities would need time to build political consensus around a critical mass of reforms.

In early 2001, the authorities spelled out a more far-reaching reform agenda—one that garnered the support of the IMF (through the Poverty Reduction and Growth Facility) in April 2001 and the World Bank (through its Poverty Reduction Support Credit) in June 2001. The centerpiece is an ambitious annual growth target: 7½ percent for 10 years. This would replicate Vietnam's growth rate in the precrisis 1990s and would, if sustained, nearly double real per capita income to $750 by 2010. But achieving and sustaining this rate of growth calls for a number of challenges to be met:

- *Reducing poverty.* Despite recent gains, poverty levels remain high, especially in rural areas where three-fourths of the population still reside. Efforts are under way to make basic infrastructure available more widely and to raise health and education standards countrywide.
- *Expanding employment opportunities.* With more than one-half of its population under the age of 25, the country must create jobs—a lot of them, and fast. Traditional and rural sectors, vulnerable to supply shocks, still provide the bulk of employment. New sources of employment—which are likely to be centered

Selected IMF rates

Week beginning	SDR interest rate	Rate of remuneration	Rate of charge
January 14	2.18	2.18	2.56
January 21	2.19	2.19	2.58

The SDR interest rate and the rate of remuneration are equal to a weighted average of interest rates on specified short-term domestic obligations in the money markets of the five countries whose currencies constitute the SDR valuation basket. The rate of remuneration is the rate of return on members' remunerated reserve tranche positions. The rate of charge, a proportion 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/cgi-shl/bur.pl?2002).

General information on IMF finances, including rates, may be accessed at www.imf.org/external/fin.htm.

Data: IMF Treasurer's Department

around export-oriented activities—must be generated to meet the demands of a highly literate labor force.

• *Increasing competitiveness.* Exports matter, and external competitiveness must be enhanced. In the current global slump, regional competition has grown fiercer, and China's recent accession to the World Trade Organization (WTO) will sharply intensify this competition. Vietnam's own plan to accelerate WTO accession will require rapid structural and procedural changes if it is to succeed.

Tackling structural weaknesses

What concrete steps are under way to tackle structural weaknesses and safeguard financial stability? The main policy elements center on reforming the banking sector and leveling the playing field for the private sector vis-à-vis the state sector. Sound macroeconomic management, of course, must remain the core of this approach, and appropriately guided monetary and fiscal policies are essential.

Reforming state-owned commercial banks. State-owned commercial banks currently control 70 percent of all bank assets and, despite sizable nonperforming loans, remain the primary source of credit growth. Large state-owned enterprises, some loss-making, are their principal clients. A government-approved restructuring plan for these banks provides for a phased recapitalization but links it to the achievement of financial and operational milestones. Difficult work lies ahead—notably in reforming credit risk management, resolving nonperforming loans, and adopting international standards of audit and accounting.

Restructuring state-owned enterprises. Many of the state-owned enterprises are inefficient and in poor financial shape. To address these concerns, the government has devised a five-year reform plan that will make around 1,800 of the roughly 5,500 enterprises subject to varying degrees of privatization. Although the plan targets small and medium-sized enterprises, the authorities are hopeful it will serve as an important first step in reducing losses and improving competitiveness in the state-owned enterprise sector. Decisive actions will be crucial—including strengthened government monitoring of the plan and improved transparency of the privatization process. Safety nets are to address labor redundancies, focusing on voluntary reductions and featuring employment retraining. And workers will be able to acquire stakes in the restructured enterprises.

Vietnam needs to revive higher growth rates

	1992–94	1995–97	1998–2000	2001 Estimate	2002 Projection
	(annual percentage changes, averages)				
Real GDP[1]	8.5	9.0	4.4	4.7	5.3
Consumer prices (annual averages)	18.6	8.8	3.2	0.8	4.9
Credit from deposit money banks[1]	48.9	23.2	24.6	21.0	16.0
Exports of goods (dollars)	25.9	31.3	16.9	4.4	4.0
Imports of goods (dollars)	42.3	22.1	11.5	2.3	9.5
	(percent of GDP, averages)				
Foreign direct investment	7.4	8.7	2.7	3.2	4.3
External debt (end of period)[2]	94.0	78.0	62.0	43.0	45.0
External debt service[3]	20.1	12.6	12.6	10.3	8.3

[1]Projection for 2001.
[2]London Club rescheduling concluded in early 1998. Restructuring of debt to Russia concluded in September 2000 on comparable terms to Paris Club rescheduling in 1993.
[3]In percent of exports of goods and nonfactor services.

Data: Vietnamese authorities; and IMF staff estimates and projections

Liberalizing trade and investment. Vietnam's recent commitments under the ASEAN Free Trade Area (AFTA) and a bilateral trade agreement with the United States represent significant trade-opening measures. Under a five-year import-export regime announced in mid-2001, Vietnam will reduce import tariffs in line with AFTA commitments and remove most quantitative restrictions on imports on a multilateral basis by early 2003. The agreement with the United States, ratified in late 2001, is expected to have an immediate impact on basic commodity and labor-intensive manufactured exports (in particular, textiles and garments). A liberalized services sector is expected to boost foreign and joint ventures and private businesses. Tourism and construction are expected to benefit in the short term, and banking and other financial services in the medium term.

Promoting private sector development. What more needs to be done to level the playing field for the private sector? Banking reform measures should afford better access to credit for private business expansion, but expanded access to bank credit will spur the need for reforms in private enterprises—in particular, greater clarity in ownership structure and stronger accounting and disclosure practices. Reforms should also ease the crowding out by the state sector as explicit government guarantees or direct budget support replaces policy-based lending to state-owned enterprises and, more generally, as restructured enterprises begin to operate with hard budget constraints.

Photo credits: Denio Zara, Padraic Hughes, Pedro Márquez, and Michael Spilotro for the IMF, pages 17–19, 24–26; Jack Dabaghian for Reuters, pages 17 and 20; and Van Anh Nguyen for the IMF, pages 30–32. Illustration credit: Massoud Etemadi, page 28.

Laura Wallace
Editor-in-Chief
Sheila Meehan
Senior Editor
Elisa Diehl
Assistant Editor
Natalie Hairfield
Assistant Editor
Lijun Li
Editorial Assistant
Maureen Burke
Editorial Assistant
Philip Torsani
Art Editor/Graphic Artist
Jack Federici
Graphic Artist

Prakash Loungani
Contributing Editor

The *IMF Survey* (ISSN 0047-083X) is published in English, French, and Spanish by the IMF 23 times a year, plus an annual *Supplement on the IMF* and an annual index. Opinions and materials in the *IMF Survey* do not necessarily reflect official views of the IMF. Any maps used are for the convenience of readers, based on National Geographic's *Atlas of the World*, Sixth Edition; the denominations used and the boundaries shown do not imply any judgment by the IMF on the legal status of any territory or any endorsement or acceptance of such boundaries. Material from the *IMF Survey* may be reprinted, with due credit given. Address editorial correspondence to Current Publications Division, Room IS7-1100, IMF, Washington, DC 20431 U.S.A. Tel.: (202) 623-8585; or e-mail any comments to imfsurvey@imf.org. The *IMF Survey* is mailed first class in Canada, Mexico, and the United States, and by airspeed elsewhere. Private firms and individuals are charged $79.00 annually. Apply for subscriptions to Publication Services, Box X2002, IMF, Washington, DC 20431 U.S.A. Tel.: (202) 623-7430; fax: (202) 623-7201; e-mail: publications@imf.org.

Getting the business environment right

If Vietnam hopes to create an environment that is conducive to business, it also needs to reform legal and administrative regulations governing private business operations and foreign investment. A new law affecting private businesses and an amended law covering foreign and joint ventures have provided a strong start. The law governing private businesses has eased obstacles to entry, removed licensing requirements for more than one-half of the subsectors, slashed registration costs, and dramatically shortened the approval process for start-ups. The response from Vietnam's fledgling private sector has been heartening—36,000 newly registered small and medium-sized businesses now employ more than one-half million workers (1½ percent of the total labor force).

But more needs to be done. Future action will be needed to amend and supplement existing law, notably in applying a common system of incentives for domestic and foreign investors. Such a step would, ideally, unify and simplify Vietnam's legal and administrative frameworks, including its tax system.

An amendment to existing law has already begun to address the differential treatment accorded foreign and jointly owned enterprises vis-à-vis their state-owned counterparts. Procedures for foreign direct investment have been streamlined, and key provisions of the amendment aim at simplifying the registration of foreign-invested businesses, allowing greater access to foreign exchange, clarifying government guarantees on certain types of infrastructure projects, and encouraging investment by overseas Vietnamese.

In addition, the authorities have called for an accelerated phase-out of a dual pricing system that forces foreign and joint ventures to pay more for some key inputs. Work is also under way on further reforms, including opening more sectors to foreign direct investment and clarifying the use and transferability of land-use rights by foreign and joint ventures.

Last, but perhaps most important, investors need to be convinced that the government is receptive to private sector development. A recently adopted constitutional amendment guarantees the private sector equal treatment with the state sector, but institutions and governance will need to be strengthened to ensure that the legal intent finds a practical and broad-based application. Vietnam will need, for example, to avoid excessive governmental oversight of business activity by more clearly defining the authority of government agencies. In addition, implementation guidelines for new and amended laws will need to be issued more quickly; information on legal and regulatory changes will need to be better disseminated; and the capacity of the judiciary to interpret and enforce legislative changes will need to be strengthened.

A busy market in Hanoi. Newly registered small and medium-sized businesses in Vietnam now employ more than one-half million workers.

A recently drafted program of administrative reforms seeks to tackle long-standing problems of excess bureaucracy, red tape, and corruption. It calls for streamlined central and local government operations, strengthened personnel training and management, and more clearly delineated tasks and responsibilities.

A great deal remains on the agenda, but the authorities are keenly aware that the country must compete effectively in the global market, and boosting investment and persisting with comprehensive and long-range reforms will be keys to doing this. Steadfast execution of this strategy holds the promise that Vietnam can recapture its high growth rates and substantially reduce poverty. ■

David Cowen
IMF Asia and Pacific Department

Vietnam sets its development goals

Goals	Achievements	Targets
Poverty reduction	1990–98, incidence of poverty nearly halved	By 2010, reduce poverty by an additional two-fifths
Quality education for all	In 2000, enrollments in primary school, 91 percent; lower secondary, 62 percent	By 2005, enrollments in primary school nearly 100 percent; lower secondary, 80 percent
Lower child and maternal mortality rates	1992–99, infant mortality fell to one-half level of similar low-income countries	By 2005, reduce infant mortality additional 30 percent and maternal mortality, 20 percent
Essential infrastructure to poor communes	In 2000, 52 percent of population had access to safe water	By 2005, provide essential infrastructure to 75 percent of poor communes

Sources: World Bank and Asian Development Bank