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For highlights of the IMF's Spring 1998 *World Economic Outlook*, please see page 138.

Spring Meetings Overview

Ministers Outline Measures to Strengthen Monetary System; Adopt Code of Good Practices on Fiscal Transparency

In a meeting dominated by the repercussions of the Asian crisis, the Interim Committee on April 16 outlined a far-reaching series of measures to strengthen the world's monetary and financial system. As part of this initiative, the Committee, formally known as the Interim Committee of the Board of Governors of the IMF, also called on member countries to make available to the IMF and the public more information on their economic data and policies and advocated more intensive procedures to involve the private sector in preventing or resolving financial crises. In its communiqué (see page 119), the Committee also announced it had adopted a Code of Good Practices on Fiscal Transparency—Declaration on Principles (see page 122) to serve as a guide for member countries to increase fiscal transparency and thereby enhance the accountability and credibility of fiscal policy as a key feature of good governance. It encouraged members to adhere to the principles and implement the practices of the Code. It encouraged the IMF Executive Board to look into the merits of developing a code of good practices with respect to financial and monetary policies.

The Committee further emphasized its support for amending the IMF Articles of Agreement to provide for the orderly liberalization of capital movements. It welcomed the progress that had been made in implementing the initiative to assist the heavily indebted poor countries (HIPC Initiative). Noting the need to reactivate the IMF's efforts to secure full financing of both the Enhanced Structural Adjustment Facility (ESAF) and the HIPC Initiative, it urged all member countries to move quickly to complete the financing of these initiatives as soon as possible.

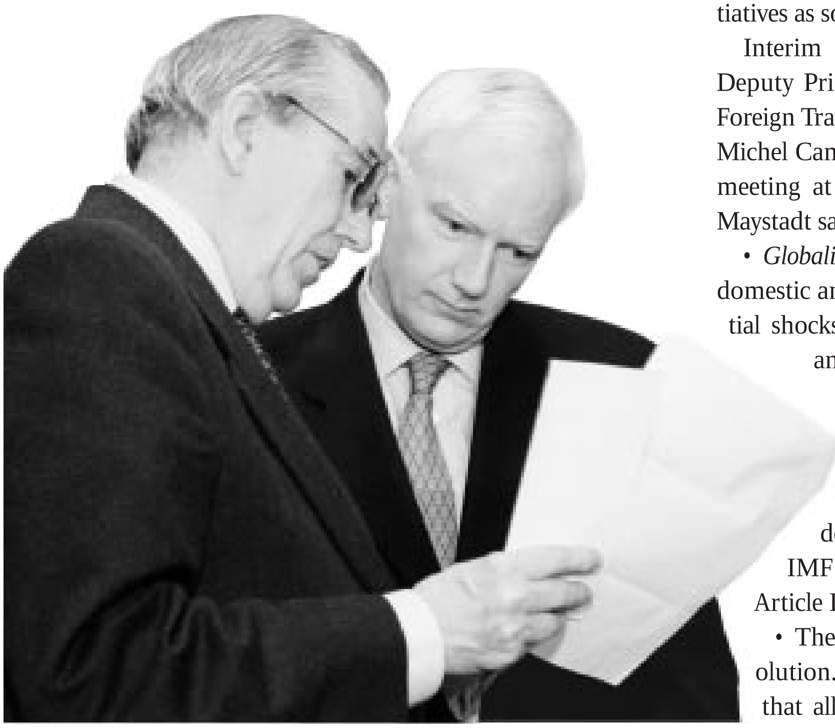
Interim Committee Chairman Philippe Maystadt, Deputy Prime Minister and Minister of Finance and Foreign Trade of Belgium, and IMF Managing Director Michel Camdessus discussed the progress made in the meeting at a joint press conference (see page 116). Maystadt said he drew three main conclusions:

• *Globalization* has increased the vulnerability of domestic and international financial systems to potential shocks, including to shifts in market sentiment and to contagion effects from policy weaknesses in other countries.

• The importance of *greater availability and transparency of information* regarding data and policies. If persistent deficiencies in disclosing relevant data to the IMF impede surveillance, the conclusion of Article IV consultations should be delayed.

• The *involvement of the private sector* in crisis resolution. The Committee thinks it is quite important that all creditors, including short-term creditors, bear more fully the consequences of their actions.

On the first issue, *(Continued on the following page)*



IMF Managing Director Michel Camdessus confers with Interim Committee Chairman Philippe Maystadt during the Interim Committee meeting.

(Continued from front page) relating to the vulnerability of the system to potential shocks, Maystadt highlighted four areas for action by the IMF:

• To actively encourage members to *adopt internationally agreed standards* for strengthening banking regulation and supervision.

• To underscore the importance of *orderly and properly sequenced liberalization* of capital movements.

• To enhance its *surveillance of capital flows* and focus on the risks posed by abrupt reversals of capital flows.

• To pursue its *cooperation with the World Bank* to find the most effective way to offer its members the best possible advice on policy measures for strengthening their financial systems.

IMF First Deputy Managing Director Stanley Fischer responds to reporters' questions following a press conference.

Global Economic Outlook

In their discussions, Interim Committee members concluded that the outlook for the world economy was "cautiously optimistic." This assessment reflected continued strong performance in the industrial countries—other than Japan—sustained corrective policies in emerging market countries that helped avert a wider crisis, and progress in much of the developing world and among the transition countries. The communiqué cautioned, however, that there are some areas of concern:

• Among the *countries at the center of the crisis,* determined implementation of agreed policy programs is essential to restore confidence and sustainable growth.

• In the case of *Japan*, effective fiscal measures and appropriate structural reforms are needed, coupled with decisive and rapid action in the financial sector to restore public confidence.

• In both the *United Kingdom and the United States*, which are operating near capacity, the authorities need to remain vigilant to inflation risks.

• Welcoming the economic convergence of countries participating in European *Economic and Monetary Union* (*EMU*), the Committee noted it would be important for world growth for growth in continental Europe to be led increasingly by domestic demand. It requested the IMF Executive Board to examine further the implications of EMU for IMF operations and the conduct of surveillance and to report its findings by the Committee's next meeting in October 1998.

• For *developing countries*, the focus should remain on sound macroeconomic policies, open markets, and structural reforms. It remains prudent for emerging market economies not at the center of the crisis to continue to strengthen policies.

• The move to positive growth with lower inflation in 1997 in many *transition countries* represents an important achievement. Many of these countries still need to reduce fiscal deficits by strengthening revenue collection and improving the efficiency of social security and welfare systems and of governmental services more generally.

Concerning Japan, the Managing Director said at the press conference that he shared the view expressed in the communiqué of the Group of Seven industrial countries (see page 128) that the recent depreciation of the yen is excessive and does not help the proper rebalancing of the world economy. He said that "such an issue must be addressed by the quick and full implementation of the [Japanese government's] program for banking restructuring and fiscal stimulus."

Architecture of the Monetary System

The Interim Committee considered that action to help prevent future financial crises, and to resolve them when they occur, should center on the following pillars:

• *Strengthened international and domestic financial systems*. These should be based on sound and stable macroeconomic policies and supervisory and regulatory frameworks consistent with internationally accepted practices and strengthened standards.

• *Strengthened IMF surveillance and recommendations*. These would include intensified surveillance of financial sector issues and capital flows, including a focus on the risks posed by potentially abrupt reversals of capital flows. The Committee also "emphasized the need for the IMF's views to be communicated effectively to members and to be brought to bear in members' policy deliberations. In this context, it requested the Executive Board to develop a "tiered response," whereby countries that are believed to be seriously off course in their policies are given increasingly strong warnings."

Asked if the concept of the tiered response meant that the IMF would go public with its concerns on a member's economy without the consent of the member concerned, the Managing Director during the press conference drew the analogy of the yellow warning card in soccer games and said that the Interim Committee "has encouraged us from time to time to show the yellow card a little more." This could, he said, take the form of a letter to a prime minister or a finance minister asking for a response that would be shared with the Board. He added: "It is the strong hope of the Committee that the IMF will never be in the situation to have to resort to the red card of going public with its negative opinion on a given country."

• *Greater availability and transparency of information* regarding economic data and policies. The Committee stressed that it is important that subscribers to the Special Data Dissemination Standard (SDDS) be in full observance of the standard by the end of December 1998. It requested the IMF to broaden and strengthen the SDDS to cover additional financial data, including net reserves; debt, particularly short-term debt; and indicators of the stability of the financial sector. The Committee also encouraged more members to release press information notices (PINs) on the conclusion of Article IV consultations and welcomed the upcoming review of the experience with PINs.

• The *central role of the IMF in crisis management*. The Committee welcomed the establishment of the Supplemental Reserve Facility (see *IMF Survey*, January 12, page 7) and called for the rapid implementation of both the increase in quotas and the New Arrangements to Borrow.

• More effective *procedures to involve the private sector* in forestalling or resolving financial crises. Noting that all creditors, including short-term creditors, must more fully bear the consequences of their actions, the Committee requested the IMF Board to intensify its consideration of possible steps to strengthen private sector involvement and asked the Board to report on its work in this area at the next Committee meeting.

Among the mechanisms that the Committee suggested for meeting this objective were closer contacts with creditors for explaining IMF arrangements and catalyzing financing; extending the IMF policy of providing financing to members in arrears on their debt payments to some private creditors; and advising members to exercise caution with respect to public guarantees to reduce the risk of a private debt problem turning into a public debt problem.

On private sector involvement, the Managing Director explained at the press conference that "we are invited to establish contacts in a totally pragmatic way, case by case, according to the circumstances, according to the problem we are handling, while trying to be evenhanded in the dissemination of information...and trying to establish as much transparency as we can and a climate of mutual confidence and mutual help."

Development Issues

The Development Committee (Joint Ministerial Committee of the Boards of Governors of the Bank and the IMF on the Transfer of Real Resources to Developing Countries) met on April 17. Anwar Ibrahim, Deputy Prime Minister and Minister of Finance of Malaysia, chaired the meeting. In its communiqué (see page 126), the Development Committee welcomed the rapid response of the IMF and the World Bank to the Asian crisis. They also welcomed the efforts of the two institutions to help governments address the social consequences of crises, including shielding targeted public expenditures, improving labor standards, and strengthening social safety nets for the most vulnerable.

The ministerial-level Group of 24 (Intergovernmental Group of 24 on International Monetary Affairs), representing the developing countries, met on April 14. In their communiqué (page 131), the group, which was chaired by Abdelkrim Harchaoui, Algerian Minister of Finance, called for the establishment of a task force from industrial and developing countries to study ways to prevent and respond to future crises induced by large-scale capital movements and to increase the representation of developing countries in the international financial institutions.

Two ministerial groupings representing the industrial countries also met in the days prior to the Interim Committee meeting. On April 15, the Group of Seven noted that economic growth is expected to strengthen in continental Europe, although continuing structural reforms will be needed to combat unemployment, while in Japan a strong program of effective fiscal measures and structural reforms is required (see page 128). The Group of Ten on April 16 called for strengthened policies to contain the adverse effects of population aging on living standards. It also urged the rapid implementation of the concerted strategy to promote financial stability in emerging market economies (see page 130). ■

The complete texts of all official communiqués, transcripts of press conferences, and other information relating to the spring meetings, as well as a detailed fact sheet entitled *The IMF's Response to the Asian Crisis*, are available on the IMF's web site: http://www.imf.org.

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Membership of Committees and Groups

Interim Committee
Provides ministerial guidance to the Executive Board. Comprises 24 IMF governors, ministers, or other officials of comparable rank.

Development Committee
Advises and reports to the Boards of Governors of both the IMF and the World Bank on development issues. Comprises 24 governors of IMF or Bank, ministers, or other officials of comparable rank.

Group of Seven
Heads of government, foreign and finance ministers of the industrial countries: Canada, France, Germany, Italy, Japan, United Kingdom, and United States.

Group of Ten
Group of Seven plus Belgium, the Netherlands, Switzerland, and Sweden.

Group of 24
Represents developing country interests. Comprises finance ministers, central bank governors, or other officials of comparable rank from developing countries.

Joint Press Conference

Maystadt, Camdessus Discuss Crisis Prevention, Monetary Architecture, and Fiscal Transparency

Following are excerpts from the joint press conference given by Philippe Maystadt, Interim Committee Chairman, and IMF Managing Director Michel Camdessus in Washington on April 16.

MAYSTADT: The Interim Committee has focused its work on strengthening the architecture of the international monetary system, and we also had a discussion on the issues raised in the *World Economic Outlook* [see page 138], with a special emphasis on the situation of the countries at the center of the Asian crisis.

The Committee adopted a code of good practices on fiscal transparency to serve as a guide to members to increase fiscal transparency and enhance the accountability and credibility of fiscal policy as a key feature of good governance. The Committee also reaffirmed its view that the Executive Board should pursue its work on an amendment of the IMF's Articles of Agreement that would make the promotion of an orderly and well-sequenced liberalization of capital movements one of the purposes of the IMF and to extend, as needed, the IMF's jurisdiction for this purpose. Finally, the Committee discussed the progress made under the HIPC Initiative (to provide debt relief to heavily indebted poor countries). The Committee stressed the importance of securing the full funding for this initiative; the Committee also emphasized the importance of drawing operational conclusions from the issues raised by both the internal and external evaluations of the Enhanced Structural Adjustment Facility (ESAF).

IMF Managing Director Camdessus (left), Interim Committee Chairman Maystadt, and IMF External Relations Department Director Shailendra Anjaria at the joint press conference.

Following are three main conclusions that can be drawn from the Committee's discussion.

Strengthening Financial Systems. Globalization has increased the vulnerability of domestic and international financial systems to potential shocks, including to shifts in market sentiment and contagion effects from policy weaknesses in other countries. Actions the IMF can take include:

• actively encouraging members to adopt internationally agreed standards for strengthening banking regulation and supervision, especially the Basle Committee's core principles. The IMF should also work with other institutions and organizations responsible for the development of standards in other areas, such as accounting, auditing, disclosure, asset valuation, bankruptcy, and corporate governance;

• underscoring the importance of orderly and properly sequenced liberalization of capital movements;

• enhancing surveillance of capital flows and focusing on the risks posed by abrupt reversals of such flows; in this context a specific request has been made to the Executive Board to examine ways to strengthen the monitoring of capital flows, especially short-term cross-border flows; and

• pursuing its cooperation with the World Bank to find the most effective way to offer its members the best possible advice on policy measures for strengthening their financial systems.

Data Availability and Transparency. The Committee underscored members' obligation to provide timely and accurate data to the IMF. If persistent deficiencies in disclosing relevant data to the IMF impede surveillance, it is suggested that the conclusion of Article IV consultations should be delayed.

The Committee recognized the importance of encouraging more members to subscribe to the special data dissemination standard and emphasized the importance of subscribers being in full observance of the standard at least by the end of the transition period—December 1998. About 40 members have already subscribed to the special data dissemination standard.

The Committee also encouraged more members to release press information notices on the conclusion of Article IV consultations.

Private Sector Involvement in Crisis Management. The Committee thinks it is important that all creditors—including short-term creditors—bear more fully the consequences of their actions. The Committee requested the Executive Board to intensify its consideration of possible steps to strengthen private sector involvement.

QUESTION: *Are you satisfied that the request that the Board should develop a tiered response to countries not taking IMF advice—culminating in publicizing that advice—will not trigger the crisis it is supposed to prevent?*
CAMDESSUS: This suggestion refers to a situation in which a government persists in the refusal to heed advice even after being assisted in producing data, which would be a distinct instance of noncooperation with the IMF. The fact that the Interim Committee has made clear that we have this avenue of action available will be a good incentive to our members to cooperate even more.

QUESTION: *Does the IMF share the concern of the Group of Seven countries about the excessive depreciation of the yen, especially its negative impact on the Japanese, Asian, and world economies? If so, do you support coordinated joint intervention by the Group of Seven authorities?*
CAMDESSUS: On the yen, I share the views of the Group of Seven. Even if you take into consideration the cyclical position of the Japanese economy, the depreciation of the yen is excessive and does not contribute to the proper rebalancing of the world economy. This being said, the view not only of the Group of Seven but of the full IMF membership is that this issue must be addressed by the quick and full implementation of the program for bank restructuring and fiscal stimulus, adopted by the government of Prime Minister Hashimoto. The effect of these measures on the Japanese economy should help the yen return to more appropriate levels. Interventions—coordinated or not—in the absence of full implementation of this program would not make sense, and this is why the Group of Seven in their communiqué have stressed the need for the Japanese authorities to take macroeconomic, fiscal, budgetary, and structural measures, and have not referred at this stage to the need for coordinated intervention.

QUESTION: *In the tiered response to publicizing IMF advice, do you foresee a situation in which the IMF would go public about its concerns without the consent of its member countries?*
CAMDESSUS: The Committee did discuss the IMF's going public with its opinion on a given country without the country's consent but only as a last resort. What the Interim Committee has suggested, rather, is a progressive strengthening of our language. Borrowing terminology from the game of soccer, the Interim Committee has encouraged us to "show the yellow card" a little more; for instance, when I send a letter to a prime minister or to a minister of finance, to tell him that he must respond to my letter, possibly within a short period. It is this concept of a graduated strategy that the Interim Committee favors. I think it is the firm hope of the Committee that the IMF will never be in the position of having to resort to the "red card" of going public with its negative opinion on a given country.
MAYSTADT: We agreed to speak about increasingly strong warnings. We did not mention public warnings explicitly, but I draw the conclusion from the

IMF Managing Director Camdessus (left) and Interim Committee Chairman Maystadt answer questions at the joint press conference.

Committee's discussion that this phrase—"increasingly strong warnings"—does not exclude the possibility that, as an ultimate step in exceptional circumstances, the IMF might go public, if there is no other way to convince a member to follow its advice and recommendations.

QUESTION: *Are you envisioning that if countries do not make information readily available, or have insufficient banking regulations or bankruptcy laws, you would identify them? Is that the architecture that you have in mind—that you would not force such reforms on countries, but that everyone should know when countries fall below the standards that the IMF has set?*
MAYSTADT: With regard to the special data dissemination standard, it is clear that after the transition period, all the subscribers should be in full compliance with the obligation. If a member country does not comply, we would need to think about the best way to convince this member to adopt the right measures to be sure that we are sending the right signal to the markets. But, if after some delay and after we have provided technical assistance to this country if needed, the country still does not comply, we should envisage taking the country off the list of subscribers. The Executive Board will reflect further on this situation, and we expect more concrete answers on this question for our next meeting.

QUESTION: *Do the developing countries generally have the ability to fulfill all the IMF's requirements—for example,* *for data availability and bank regulation? Will you be helping them reach the standards if they fall short?*

CAMDESSUS: In general, the developing countries are less advanced in the elaboration, availability, and dissemination of data. We are determined to assist them, as needed, because it is part of our job, and I think it is one of the best things we can do to help them manage their economies. We will never push a country to subscribe to data dissemination information if we are not absolutely certain that the country is well equipped to do it.

Maystadt: "The IMF might go public, if there is no other way to convince a member to follow its advice."

QUESTION: *How do you plan to establish closer contacts with creditors, as mentioned in your communiqué? Also, under the liberalization of capital movements, when you mention prudential and supervisory systems, does that include prudential limits on access to borrowing in foreign currencies, or some way to limit inflows into the developing countries?*

CAMDESSUS: Regarding our relations with the private sector, the Interim Committee has invited us to establish contacts in a totally pragmatic way, case by case, and according to the circumstances and problems we are handling, while, at the same time, trying to be even-handed in the dissemination of information, establishing a climate of mutual confidence and help. No specific organization or procedure has been spelled out.

MAYSTADT: On prudential systems, some members of the Committee asked that consideration be given to the desirability of prudential measures to cope with the risk associated with short-term capital flows, but nothing was decided.

QUESTION: *The recent financing packages for Korea and other affected countries that the IMF has put together have involved burden sharing by some creditor banks. Some criticism launched against the packages is that the banks were not brought in early enough. Has the IMF experienced problems getting the banks on board in time?*

CAMDESSUS: One of the difficulties, particularly in the case of Korea, but also with Thailand and Indonesia, is that the countries invited us to negotiate a program with them at the last minute, so we had only a few days to put together a package. As soon as we were asked to come on board, we suggested that the banking community be put in the picture. It took some time to identify the bankers that were involved, as well as the amounts, and to bring them to the bargaining table. In the meantime, we had to help the country avoid defaulting on its obligations. This is why for a certain period of time, ours was the only financing available.

Could we have done our job without these big packages? In our discussions today, we have reaffirmed that the IMF's role is to act as a catalyst, which means that we should not be the predominant provider of financing. This continues to be our strategy. If you looked at all the activities of the IMF, rather than just the three big packages, our catalytic role would be clear.

QUESTION: *In its communiqué, the Interim Committee notes that the ESAF evaluation provided important lessons. Can you tell us briefly what are some of the lessons?*

CAMDESSUS: IMF management had earlier decided to submit ESAF, after ten years of existence, to both an internal evaluation and an evaluation by external and wholly independent evaluators. Now, we have the results of these evaluations, which have been made public. We wanted to bring these results to the attention of the Interim Committee, because both documents provided very important conclusions.

The external evaluators concluded that the ESAF is of fundamental importance as the instrument with which the IMF can deal with the poorest countries; and they paid tribute to the remarkable changes that the programs under the ESAF have allowed to take place. At the same time, this evaluation points to several areas where improvements could be made. For example, countries still do not have sufficient ownership of their programs. They still have a tendency to say they take certain actions because the IMF asks them to. This, of course, is not good for the sustainability of these efforts. ESAF's potential for promoting social progress in the countries is also insufficiently perceived—not only in providing protection for those hardest hit by the adjustment process but also in promoting human development more decisively.

Interim Committee Communiqué

Ministers Assess Implications of Asian Crisis, Capital Liberalization, ESAF and HIPC

Following is the text of the communiqué issued after the April 16 meeting of the Interim Committee of the Board of Governors of the IMF.

1. The Interim Committee held its fiftieth meeting in Washington on April 16, 1998, under the Chairmanship of Mr. Philippe Maystadt, Deputy Prime Minister and Minister of Finance and Foreign Trade of Belgium.

The *World Economic Outlook*

2. The Committee agreed that, while the countries at the center of the crisis will suffer significantly from the recent financial turmoil in Asia, the global outlook for world economic growth can be regarded as cautiously optimistic. This assessment reflects the continued strong performance expected in most industrial countries, sustained corrective policies in emerging market countries that helped avert a wider crisis, and progress in much of the developing world and among the transition countries in improving medium-term fundamentals.

Notwithstanding these positive aspects, there are downside risks, calling for resolute action in a number of areas to support global noninflationary economic growth.

Among the countries at the center of the crisis, determined implementation of agreed policy programs is essential to restore confidence and sustainable growth. This includes maintenance of appropriately firm monetary policies to underpin the recovery in exchange rates, fiscal discipline, and the implementation, without delay, of structural reforms, especially in the financial sector, that are essential to strengthen medium-term prospects. It is equally important for all countries to keep markets open.

In Japan, both fiscal and structural measures, including comprehensive regulatory and financial sector reforms, are needed to secure an early and lasting recovery. The Committee welcomed the recent announcement of the economic policy package, as well as steps taken earlier to strengthen the financial system. It will be important now to implement effective fiscal measures and appropriate structural reforms promptly. Decisive and rapid action in the financial sector is important to restore public confidence. Any support to the banking system should be accompanied by appropriate action on closure or consolidation, and undertaken as part of a coherent medium-term policy framework. Such actions are particularly crucial at the current conjuncture, given the importance of the Japanese economy for the region and for the world.

In those industrial countries operating near capacity, including the United States and the United Kingdom, the authorities need to remain vigilant as always to inflation risks. In the United States, prospective fiscal surpluses should help to address the issue of the low national savings rate.

In continental Europe, the Committee welcomed the economic convergence of the countries aspiring to initial participation in EMU and looked forward to the historic decisions to be taken shortly. Further progress with fiscal consolidation is desirable in a number of countries, especially to provide for the needed scope for policy flexibility within the Stability and Growth Pact, and there continues to be a strong need for progress in implementing structural reforms, especially in labor markets, to help reduce unemployment and contribute in this regard to the success of EMU. Moreover, it will be important for balanced world growth that growth in continental Europe be led increasingly by domestic demand. The Committee requested the Executive Board to examine further the implications of EMU for IMF operations and for the conduct of IMF surveillance, and to report its findings in time for the next meeting of the Committee.

Secretary of Finance and Public Credit of Mexico Jose Angel Gurria Treviño (left), U.S. Federal Reserve Chairman Alan Greenspan, and U.S. Executive Director Karin Lissakers at the Interim Committee meeting.

For developing countries, the focus should remain on sound macroeconomic policies, open markets, and structural reforms—particularly building soundly managed and supervised market-oriented financial sectors. While those emerging market economies not at the center of the crisis have generally weathered the crisis well thus far, it remains prudent for them to continue to strengthen policies, particularly by containing external balances, avoiding overheating, strengthening the financial system, and enhancing data provision. In Africa, strong structural adjustment policies and continued support from the international community are needed to sustain the progress made by several countries in raising living standards. Although a number of developing countries would benefit, the recent sharp declines in oil and other commodity prices pose considerable challenges for a number of other developing countries and could temporarily affect growth and investment and slow progress in reducing poverty, especially in some African countries.

For the transition countries, the move to positive growth with lower inflation in 1997 represents an important achievement, but many countries still need to reduce fiscal deficits by strengthening revenue collection and improving the efficiency of social security and welfare systems and of governmental services more generally.

Strengthening Architecture of International Monetary System

3. The Committee discussed emerging lessons from the Asian crisis and steps required for strengthening the architecture of the international monetary system. Such a strengthening was regarded as needed, particularly in light of globalization, which has brought clear benefits, but at the same time has posed challenges. It has reinforced the importance of sound macroeconomic policies and strong financial systems to guard against vulnerability to shifts in market sentiment and to contagion effects from policy weaknesses in other countries. The Committee considered that action to help prevent financial crises, and resolve them when they occur, should center on the following pillars.

Strengthened International and Domestic Financial Systems. Sound and stable macroeconomic policies are critical to financial stability.

Action is also needed to strengthen domestic financial systems, by developing supervisory and regulatory frameworks consistent with internationally accepted practices and strengthened standards for bank and nonbank financial entities. Work in this area is already in progress in various fora, notably the Basle Committee's Core Principles for strengthening banking regulation and supervision. The Committee noted that such work should be further advanced in the appropriate fora to cover other important areas, which could include accounting, auditing, disclosure, asset valuation, bankruptcy, and corporate governance. The Committee called on the IMF to work with other concerned institutions and organizations responsible for the development of standards and guidelines in these areas, and in the context of its surveillance activities, to consider how best the IMF could assist in the dissemination of such standards to the membership and to encourage members to adopt them. The Committee welcomes ongoing efforts to facilitate the exchange of information and greater coordination among financial supervisors to help strengthen domestic financial systems.

Strengthened IMF Surveillance and Recommendations. The Committee agreed that the IMF should intensify its surveillance of financial sector issues and capital flows, give particular attention to policy interdependence and risks of contagion, and ensure that it is fully aware of market views and perspectives.

The Committee noted that the IMF's enhanced surveillance should include a focus on the risks posed by potentially abrupt reversals of capital flows, particularly those of a short-term nature. It requested the Executive Board to examine ways to strengthen the monitoring of capital flows.

The Committee encouraged further efforts by the IMF and the Bank to find the most effective way—possibly through new forms of joint collaboration, and drawing on relevant outside expertise—to offer their members the best possible advice on strengthening the financial sector.

It emphasized the need for the IMF's views to be communicated effectively to members and to be brought to bear in members' policy deliberations. In this context, it requested the Executive Board to develop a "tiered response," whereby countries that are believed to be seriously off course in their policies are given increasingly strong warnings.

Greater Availability and Transparency of Information. Noting that the effectiveness of surveillance depended critically on the timely availability of accurate information, the Committee underscored members' obligation to provide timely and accurate data to the IMF. If persistent deficiencies in disclosing relevant data to the IMF seriously impede surveillance, conclusion of Article IV consultations should be delayed.

The Committee welcomed the progress made on implementation of the Special and General Data Dissemination Initiatives. It requested the IMF to expedite its efforts to broaden and strengthen the Special Data Dissemination Standard (SDDS) to cover additional financial data, including net reserves (reserve-related liabilities, central bank derivative transactions and positions); debt, particularly short-term debt; and indicators of the stability of the financial sector. The Committee recognized the importance of encouraging more members to subscribe to the SDDS and of supporting efforts by members to improve compilation and provision of data with technical assistance from the IMF and other agencies. The Committee also emphasized the importance of subscribers being in full observance of the standard by the end of the transition period in December 1998. Consideration should be given to increase its usefulness, accessibility to the public and market participants, and publication of compliance.

It further requested the IMF to continue its efforts to increase dissemination of information on its policy recommendations and encouraged member countries to increase the transparency of their policies.

The Committee encouraged more members to release Press Information Notices on the conclusions of Article IV consultations, and it welcomed the upcoming review as a good occasion to take stock of the experience.

Central Role of IMF in Crisis Management. The Committee welcomed the timely response to the crisis by the international community, including from the IMF. It welcomed the establishment of the Supplemental Reserve Facility and the use of emergency procedures in the IMF's rapid response in support of the countries in crisis.

The IMF's role in responding to members experiencing a large financing need should remain central, in particular because of the IMF's role, through its conditionality, in supporting the necessary reforms. The IMF cannot be expected to be able to finance whatever large balance of payments deficit. Its role is essential to catalyze other sources of financing and, when needed, to coordinate support from other sources.

The Committee noted the sharp weakening of the IMF's liquidity position and stressed the need to ensure that the IMF has adequate resources. It called for the rapid implementation of the increase in quotas approved by the Board of Governors in January 1998 and of the New Arrangements to Borrow.

More Effective Procedures to Involve the Private Sector. The Committee observed that, while many in the private sector had incurred substantial losses in the recent crises, it was important that all creditors, including short-term creditors, more fully bear the consequences of their actions.

It noted that, in the first instance, measures to discourage excessive reliance on short-term financing and strengthen countries' capacity to withstand sudden shifts in market sentiment are essential preventive elements.

The Committee agreed that, when warranted by crisis situations, ways needed to be found to involve private creditors at an early stage, in order to achieve equitable burden sharing vis-à-vis the official sector and to limit moral hazard. While noting the difficult issues involved, the Committee requested the Executive Board to intensify its consideration of possible steps to strengthen private sector involvement.

Efforts should also be devoted to strengthening incentives for creditors and investors to better use information to analyze risks appropriately and avoid excessive risk taking.

The Committee suggested that different mechanisms for meeting this objective could be considered:

• closer contacts with creditors for explaining IMF arrangements and catalyzing private sector financing;

• studying further the possibility of introducing provisions in bond contracts for bondholders to be represented, in case of nonpayment, in negotiations on bond contract restructuring;

• extending the IMF's policy of providing financing to members in arrears on their debt payments to some private creditors under appropriate safeguards;

• encouraging the adoption of strong bankruptcy systems for the operation of both domestic and international capital markets;

• advising members to exercise caution with respect to public guarantees to reduce the risk of a private debt problem turning into a sovereign debt problem.

H.E. Marcel Doupamby Matoka, Minister of Finance and Economy of Gabon (left), and Rigobert Andely, Deputy Governor of Banque des Etats de l'Afrique Centrale, Cameroon.

The Committee requested the Executive Board to report on all aspects of its work in these areas at the next meeting of the Committee.

Liberalization of Capital Movements Under an Amendment of the Articles

4. The financial crisis in Asia has given heightened attention to the role of capital flows in economic development. The effects of the crisis have not negated the contribution that capital movements have made to economic progress in the Asian countries before the crisis erupted. Rather, the crisis has underscored the importance of orderly and properly sequenced liberalization of capital movements, the need for appropriate macroeconomic and exchange rate policies, the critical role of sound financial sectors, and effective prudential and supervisory systems. The Committee reaffirmed its view, expressed in the Hong Kong Communiqué last September, that it is now time to add a new chapter to the Bretton Woods Agreement by making the liberalization of capital movements one of the purposes of the IMF and extending, as needed, the IMF's jurisdiction for this purpose. The Committee noted the progress made thus far and the provisional agreement reached by the Executive Board on that part of the amendment dealing with the IMF's purposes. It requested the Executive Board to pursue with determination its work on other aspects, including policy issues, with the aim of submitting an appropriate amendment of the Articles for the Committee's consideration as soon as possible.

Code of Good Practices on Fiscal Transparency

5. The Committee adopted the "Code of Good Practices on Fiscal Transparency—Declaration on Principles" [see below] to serve as a guide for members to increase fiscal transparency, and thereby enhance the accountability and credibility of fiscal policy as a key feature of good governance. The Committee encouraged member countries to adhere to the principles and implement the practices of the Code, recognizing that implementation will be affected by diversity in fiscal institutions, legal systems, and implementation capacity. The Committee requested the IMF to monitor progress in implementing the Code in the context of its surveillance. The Committee also encouraged the Executive Board to examine the desirability of developing a code of good practices with respect to financial and monetary policies, in cooperation with the appropriate institutions.

ESAF and HIPC Initiatives

6. The Committee welcomed the progress made to date in the implementation of the HIPC Initiative, including the release by the Executive Boards of the IMF and the Bank of assistance for Uganda when it reached its completion point in early April; the decisions, in principle, to provide assistance to Bolivia, Burkina Faso, Côte d'Ivoire, Guyana, and Mozambique; and the preliminary discussions on Guinea-Bissau and Mali. The Committee encouraged countries that could qualify for assistance under the Initiative to take expeditiously the necessary adjustment measures to qualify for this special assistance.

The Committee noted the need to reactivate the efforts by the IMF to secure the full financing of the ESAF and the HIPC Initiative. In view of the present and expected future commitments under the HIPC Initiative and the significant costs resulting from the delay in mobilizing the necessary financial resources, the Committee urged all members to move quickly to complete the financing of these initiatives as soon as possible. The Committee requested that the Executive Board report back to the Interim Committee on this issue at its next meeting.

The Committee expressed its appreciation for the work of the external evaluators of the ESAF. Their report, which complemented the earlier internal evaluation of the ESAF, reaffirmed the view that the ESAF is a valuable instrument to assist low-income countries. The Committee noted that, together, the internal and external evaluations provided important lessons and a useful basis for public debate. The Committee welcomed the intention of the Executive Board to draw operational conclusions from the issues raised by the evaluations so as to strengthen the ability of the IMF to foster sustained growth and external viability in poor countries.

The next meeting of the Interim Committee will be held in Washington, D.C., on October 4, 1998. ■

Code of Good Practices on Fiscal Transparency: Declaration on Principles

The Interim Committee stressed the importance of good governance when it adopted the Partnership for Sustainable Global Growth in September 1996, and again at its September 1997 meeting in Hong Kong SAR. Fiscal transparency would make a major contribution to the cause of good governance. It should lead to better-informed public debate about the design and results of fiscal policy, make governments more accountable for the implementation of fiscal policy, and thereby strengthen credibility and public understanding of macroeconomic policies and choices. In a globalized environment, fiscal transparency is of considerable importance to achieving macroeconomic stability and high-quality growth. However, it is only one aspect of good fiscal management, and attention has to be paid also to increasing the efficiency of government activity and establishing sound public finances.

Because of its fiscal management expertise and universal membership, the IMF is well placed to take the lead in promoting greater fiscal transparency. The Interim Committee is therefore seeking to encourage IMF member countries to implement the following Code of Good Practices on Fiscal Transparency. The Code is based around the following key objectives: roles and responsibilities in government should be clear; information on government activities should be provided to the public; budget preparation, execution, and reporting should be undertaken in an open manner; and fiscal information should be subjected to independent assurances of integrity. The Code sets out what governments should do to meet these objectives in terms of principles and practices. These principles and practices are distilled from the IMF's knowledge of fiscal management practices in member countries. The Code will facilitate surveillance of economic policies by country authorities, financial markets, and international institutions.

Guidelines to the implementation of the Code are to be provided in a supporting manual, which is currently being developed. The Code acknowledges diversity across countries in fiscal management systems and in cultural, constitutional, and legal environments, as well as differences across countries in the technical and administrative capacity to improve transparency. While there is scope in all countries for improvement with respect to some aspects of fiscal transparency covered in the Code, diversity and differences across countries inevitably imply that many countries may not be able to move quickly to implement the Code. Moreover, it is recognized that there may be a need for technical assistance if existing fiscal management practices are to be changed, and the IMF must be prepared to provide technical assistance, in cooperation with other international organizations, to those countries that request it in connection with improving fiscal transparency. Modifications to the Code should be considered periodically, in light of the experience with its implementation.

Clarity of Roles and Responsibilities

The government sector should be clearly distinguished from the rest of the economy, and policy and management roles within government should be well defined.

The boundary between the government sector and the rest of the economy should be clearly defined and widely understood. The government sector should correspond to the general government, which comprises the central government and lower levels of government, including extrabudgetary operations.

Government involvement in the rest of the economy (e.g., through regulation and equity ownership) should be conducted in an open and public manner on the basis of clear rules and procedures, which are applied in a nondiscriminatory manner.

The allocation of responsibilities between different levels of government, and between the executive branch, the legislative branch, and the judiciary, should be clearly defined.

Clear mechanisms for the coordination and management of budgetary and extrabudgetary activities should be established, and well-defined arrangements vis-à-vis other government entities (e.g., the central bank and state-controlled financial and nonfinancial enterprises) should be specified.

There should be a clear legal and administrative framework for fiscal management.

Fiscal management should be governed by comprehensive laws and administrative rules applying to budgetary and extrabudgetary activities. Any commitment or expenditure of government funds should have a legal authority.

Taxes, duties, fees, and charges should have an explicit legal basis. Tax laws and regulations should be easily accessible and understandable, and clear criteria should guide any administrative discretion in their application.

Ethical standards of behavior for public servants should be clear and well publicized.

Public Availability of Information

The public should be provided with full information on the past, current, and projected fiscal activity of government.

The annual budget should cover all central government operations in detail and should also provide information on central government extrabudgetary operations. In addition, sufficient information should be provided on the revenue and expenditure of lower levels of government to allow a consolidated financial position for the general government to be presented.

Information comparable to that in the annual budget should be provided for the outturns of the two preceding fiscal years, together with forecasts of key budget aggregates for the two years following the budget.

Statements should be published with the annual budget giving a description of the nature and fiscal significance of contingent liabilities, tax expenditures, and quasi-fiscal activities.

The central government should regularly publish information on the level and composition of its debt and financial assets.

A public commitment should be made to the timely publication of fiscal information.

Specific commitments should be made to the publication of fiscal information (e.g., in a budget law).

Advance release date calendars for fiscal reporting to the public should be announced.

Open Budget Preparation, Execution, and Reporting

Budget documentation should specify fiscal policy objectives, the macroeconomic framework, the policy basis for the budget, and identifiable major fiscal risks.

A statement of fiscal policy objectives and an assessment of sustainable fiscal policy should provide the framework for the annual budget.

Any fiscal rules that have been adopted (e.g., a balanced budget requirement and borrowing limits for lower levels of governments) should be clearly specified.

The annual budget should be presented within a comprehensive and consistent quantitative macroeconomic framework, and the economic assumptions and key parameters (e.g., effective tax rates) underlying budget estimates should be provided.

Existing commitments should be distinguished from new policies included in the annual budget.

Major risks to the annual budget should be identified and quantified where possible, including variations in economic assumptions and the uncertain costs of specific expenditure commitments (e.g., financial restructuring).

Budget estimates should be classified and presented in a way that facilitates policy analysis and promotes accountability.

Government transactions should be on a gross basis, distinguishing revenue, expenditure, and financing, and classifying expenditures on an economic and functional basis. In addition, expenditure should be classified by administrative category. Data on extrabudgetary operations should be similarly classified. Budget data should be presented in a way that allows international comparisons.

A statement of objectives to be achieved by major budget programs (e.g., improvement in relevant social indicators) should be provided.

The overall balance of the general government should be a standard summary indicator of the government's financial position. It should be supplemented by other fiscal indicators (e.g., operational balance, structural balance, and primary balance) when economic circumstances make it inappropriate to base judgments about fiscal policy stance on the overall deficit alone.

The annual budget and final accounts should include a statement of the accounting basis (i.e., cash or accrual) and standards used in the preparation and presentation of budget data.

Procedures for the execution and monitoring of approved expenditures should be clearly specified.

A comprehensive, integrated accounting system should be established. It should provide a reliable basis for assessing payments arrears.

Procedures for procurement and employment should be standardized and accessible to all interested parties.

Budget execution should be internally audited, and audit procedures should be open to review.

Fiscal reporting should be timely, comprehensive, reliable, and identify deviations from the budget.

During the year, there should be regular, timely reporting of budget and extrabudgetary outturns, which should be compared with original estimates. In the absence of detailed information on lower levels of government, available indicators of their financial position (e.g., bank borrowing and bond issues) should be provided.

Timely, comprehensive, audited final accounts of budget operations, together with full information on extrabudgetary accounts, should be presented to the legislature.

Results achieved relative to the objectives of major budget programs should be reported to the legislature.

Independent Assurances of Integrity

The integrity of fiscal information should be subject to public and independent scrutiny.

A national audit body, or equivalent organization, should be appointed by the legislature, with the responsibility to provide timely reports to the legislature and public on the financial integrity of government accounts.

Macroeconomic forecasts (including underlying assumptions) should be available for scrutiny by independent experts.

The integrity of fiscal statistics should be enhanced by providing the national statistics office with institutional independence. ■

Opening Press Conference

Camdessus Cites Greater IMF Transparency; Urges Japan to Pursue Bank Restructuring

The spring meeting of the Interim Committee would feature "the most overcrowded agenda in the recent history of the IMF," IMF Managing Director Michel Camdessus observed at a press conference on April 14. In opening comments, he reviewed global economic developments, noting that the Asian crisis is expected to reduce global GNP growth by more than 1 percent in 1998. Against this backdrop, he saw two major elements of hope: progress in the European Economic and Monetary Union (EMU) and the strength and resilience exhibited by transition economies and the emerging market countries that had worked promptly to consolidate their economies.

IMF First Deputy Managing Director Fischer (left); IMF Managing Director Camdessus; Shailendra Anjaria, Director, IMF External Relations Department; and Graham Newman, acting Chief Information Officer.

Outlining the chief topics on the Interim Committee's agenda, Camdessus noted in particular the discussion of the "architecture" of the international monetary system. Although the results of the work to date were modest, the Managing Director commented that architecture was an apt term. The Asian and Mexican crises had vividly illuminated weaknesses in the system: its vulnerability to crisis, the speed of contagion, the central role played by banking and financial sector problems, and the impact of bad governance. The crises had also brought to the fore perceived imperfections in the preventive system, including suspicions of unfairness or opacity and concerns over the role played by speculators. Even aspects of the resolution system have been called into question, he said, noting the concerns raised about moral hazard, the uneven involvement of the private sector, and the disproportionate cost absorbed by the poorest segments of the population.

In response to a question about whether transparency should begin at the IMF, Camdessus said the IMF has taken significant steps in recent years to provide the public with more, and more timely, information. But transparency faces two challenges. The IMF deals with confidential information provided by a member country. It must respect the intentions of that country and cannot, without losing the country's confidence, publish information without the country's consent. The IMF also serves as a discreet advisor, particularly in times of stress. In no circumstances, Camdessus said, should the desire to disseminate information undermine the quality of the IMF's relations with its member countries and its ability to help them do the right thing.

Many questions dealt with regional and country issues. Camdessus praised Latin America's stabilization efforts and continuing structural reforms, which have enabled it to resist contagion from the Asian crisis. The efforts of the last ten years, he said, had transformed the

Managing Director's Statement to the Interim Committee, April 16

Members of the Interim Committee have received my note on the *World Economic Outlook*, and my full statement on issues relating to the world economic situation and outlook. This would normally have been an occasion for discussing the role of the euro for the international monetary system, but this important topic will have to wait until our next meeting in the fall. Instead, I will concentrate on the Asian crisis.

• The crisis has now begun to abate, thanks to the adjustment and reform efforts undertaken by the most affected countries, with the support of the international community. However, just as the financial situation has begun to stabilize in several of the crisis economies, the regional outlook has been clouded anew by the further deterioration of the economic situation in Japan.

• Despite these difficulties, the global outcome still appears likely to be a relatively mild slowdown in the world economic expansion, thanks to strong growth momentum in North America—and increasingly in Europe also—and to the progress in many developing countries and among the transition countries in strengthening their fundamentals.

• There are nevertheless important downside risks. Policy slippages in the crisis economies could again unsettle financial markets. Furthermore, the crisis and recent commodity price movements, particularly the decline in oil prices, will bring about some large adjustments in external positions and risks of trade tensions.

• There are also risks arising from financial market developments in the industrial countries. Equity markets in many countries have recently risen to new highs, and the U.S. dollar and pound sterling have strengthened further—developments that may not be sustainable. Further risks arise from financial sector fragilities and other vulnerabilities in a number of emerging market countries.

• The countries at the center of the Asian crisis have been among the most successful emerging market countries. What went wrong? To some extent, these countries became victims of their success, which had ultimately made large demands on policies and institutions—demands that were not met with sufficient resolve. The many policy weaknesses that have been revealed by the crisis are now in the process of being addressed in the context of IMF-assisted programs.

• The stresses caused by the crisis are beginning to be evident in a substantial compression of investment, consumption, and imports in the economies at the center of the turmoil. These countries are experiencing a sizable turnaround in external positions, which will be reinforced by stronger exports. This will help to offset the declines in domestic demand, but output is still likely to decline in Indonesia, Korea, and Thailand in 1998.

• As the needed policies are implemented and external positions improve, however, confidence should recover gradually during 1998, paving the way for a moderate rebound in growth in 1999 and solid recovery by 2000. This is a realistic and feasible outcome, provided policymakers are prepared to address the root causes of the financial crisis.

• In a worrying setback, the situation in Japan has deteriorated further, reflecting the impact of over-rapid fiscal adjustment and intensifying financial strains as well as the effects of the regional crisis. To lift the Japanese economy and allow it to support activity elsewhere in the region, forceful and credible actions are needed to strengthen confidence, restructure the financial system, and move forward on the structural reform agenda.

• The Asian crisis has again demonstrated the potential for a crisis that originates in one country to spread quickly to other countries that may have enjoyed a strong economic performance in the past but nevertheless have become vulnerable to shifts in market sentiment. Identifying and addressing such vulnerabilities before a crisis hits remains a key challenge for national policymakers and for the IMF.

continent. In response to a question on Argentina's growing trade and current account deficits, he noted that the IMF and the Argentine authorities had agreed to publish the IMF's most recent staff report. This candid document complimented the country on its fiscal program and high rate of growth but cautioned that Argentina needed to be particularly attentive to current account developments and to consider moderating the rate of expansion and, perhaps, delay less urgent expenditures.

On Korea and whether that country might be in a position to adapt its program in the near future, the Managing Director commended the country's post-crisis performance as a remarkable phenomenon and linked its possible quicker-than-expected recovery to a "120 percent" effort on the program. While the speed of the recovery might indeed necessitate an adaptation of the program "sometime down the road," Camdessus did not see any urgency to do so now.

Asked to comment on the size, temporary nature, and effectiveness of Japan's income tax cut—as well as the county's prospects for resuming its role as an engine of growth in Asia and the world—Camdessus said he was encouraged by the measures that had been announced. What matters is to have things in the right perspective over the longer term, he said, and not to forget that Japan's basic underlying problem is still of a structural nature. "There are still a lot of things to be done, even beyond the Big-Bang initiative, to open Japan to the rest of the world." Of particular urgency now, he added, was giving the "proper angle, the proper teeth, and the proper efficiency to the banking restructuring measures."

On Indonesia, reporters wanted to know why the IMF applied macroeconomic prescriptions to private sector corporate debt and banking problems and why the world should now find Indonesia's commitment to reform credible. The IMF had no choice, Camdessus said, but to pursue macroeconomic and structural reforms simultaneously. And he believed Indonesia now understood the tremendous cost of not adhering to earlier reforms.

Queried about a statement in the spring 1998 *World Economic Outlook* that India needs to grow faster and reform more vigorously, Camdessus said that slowing down the opening of the Indian economy could not produce the long-term prospect of growth the country sought. India has not much to fear from opening, he said, unless it is too late and too slow. He hoped many structural reforms would be on the new government's agenda, including developing an efficient infrastructure, reforming and divesting public enterprises, taking up trade and foreign investment liberalization again, and reforming and strengthening the financial sector to pave the way for an orderly liberalization of its capital account.

Development Committee Communiqué

Ministers Welcome Support for HIPC Initiative; Stress Importance of Additional Contributions

Following is the communiqué of the Development Committee, released on April 17 in Washington.

1. The fifty-seventh meeting of the Development Committee was held in Washington, D.C. on April 17, 1998, under the chairmanship of Dato' Seri Anwar Ibrahim, Deputy Prime Minister and Minister of Finance of Malaysia.

2. *Implications of the Asian Financial Crisis.* The Committee reviewed, in the context of a globalized economy, the implications of the Asian financial crisis for the World Bank Group. In a wide-ranging discussion, ministers recognized that the crisis risks damaging the region's remarkable development achievements, particularly its especially effective antipoverty performance. Ministers expressed strong support for the active role played by the Bank Group and the International Monetary Fund, together with the Asian Development Bank, in the international effort to restore confidence and sustainable growth and to help ensure stability in the international financial system. They especially appreciated their rapid and substantial response to the crisis, including significant financial assistance to underpin stabilization measures, programs of structural reform, and technical assistance in key sectors in the most affected countries. Ministers also noted that while the region has vast potential for sustained high levels of economic growth through its own efforts, significant external support would still be required for a number of these countries over the foreseeable future.

3. Members welcomed the efforts of the World Bank and the IMF to help governments address the social consequences of crises, including shielding targeted public expenditures, improving labor standards, and strengthening social safety nets for the most vulnerable. They expressed strong support for the Bank's actions to help governments protect the poor, enhance the quality of social services, improve the design and financing of social funds, and promote sustainable environmental management. Ministers also welcomed the active support of the Bank and the IMF for design and implementation of financial and corporate restructuring and

governance, and enhanced country capacity for better economic management and financial resiliency.

4. Ministers urged the Bank, in implementing the Strategic Compact and maintaining its support for all its members, to strengthen its ability to address rapidly situations of this kind and to help governments avoid such crises in the future. Thus, the Committee urged the Bank to assist countries in strengthening key institutions and structural policies, and to augment its skills and capacities in related areas, including particularly the financial sector, corporate restructuring and governance, and poverty reduction and social sustainability.

5. Given the breadth and depth of the issues involved in helping member governments confront such difficult situations, Ministers urged the Bank and the IMF, building on their long tradition of working together, to review and reinforce their partnership based on their respective mandates. This partnership has become even more important in light of the growing significance of structural factors in assisting member governments, and the increased demands on both institutions.

6. *Implementation of the Debt Initiative for Heavily Indebted Poor Countries* (*HIPC*). The Committee was pleased by the increasing momentum in the implementation of the HIPC Initiative. Ministers congratulated Uganda on its continued strong economic reform effort and on becoming the first country to reach its completion point under the HIPC Initiative, resulting in savings in nominal debt service of about $650 million (about $350 million in net present value terms). The Committee welcomed decisions made, since its last meeting, by the Executive Boards of the IMF and IDA/IBRD, to add Guyana, Côte d'Ivoire, and Mozambique to the group of countries for which debt reduction packages have been agreed. In the case of Mozambique, this involved exceptional commitments by members of the Paris Club, and in particular Russia as Mozambique's largest creditor, as well as contributions from other countries and extraordinary assistance by IDA and the IMF to secure the large debt relief required. The six countries that have qualified for assistance under the Initiative would be eligible to receive estimated debt relief amounting to about $5.7 billion (the equivalent of $3 billion in net present value terms).

7. Ministers noted that Mali and Guinea-Bissau are expected to join this group shortly, and that the Boards' consideration of eligibility under the Initiative of other countries will occur as soon as their track records and progress in negotiation of Bank/IMF-supported programs warrant. Ministers encouraged potentially eligible countries to undertake such programs in a timely manner, so that by the year 2000 as many as possible could be included in the Initiative. Ministers welcomed the increasing number of countries that were contributing bilaterally to the HIPC Trust Fund. They also stressed the importance of additional contributions to the HIPC Initiative to assist all multilateral institutions to meet their share of the cost, including, in particular, the African Development Bank.

8. *Multilateral Investment Guarantee Agency* (*MIGA*). Ministers welcomed the successful conclusion of deliberations by the MIGA Board of Directors on MIGA's $850 million general capital increase (including a $150 million paid-in portion), as well as the agreement by IBRD governors to transfer $150 million as a grant to MIGA. These measures, reflecting agreements reached by the Committee at its last meeting, will relieve MIGA's

Development Committee Chairman Anwar Ibrahim (left), World Bank President James Wolfensohn, Director General of the World Trade Organization Renato Ruggero, and IMF Managing Director Michel Camdessus at the Development Committee meeting.

short-term financial constraints and provide it with a sustainable capital structure for the medium to long term, thus enabling it to respond to continuing growth in demand for its services. The Committee also welcomed the progress achieved by the MIGA Board on core policy issues and urged the Board to continue its discussions and to reach clear understandings on the remaining issues as soon as possible.

9. *Report of the Multilateral Development Banks* (*MDBs*). Ministers expressed appreciation to the Presidents of the four regional development banks and the World Bank for their comprehensive report on MDB follow-up to the recommendations of the Committee's MDB Task Force. The Committee welcomed the progress made by the MDBs in implementing programs designed to strengthen the effectiveness of each institution. Ministers also welcomed the efforts made by the MDB Presidents to strengthen their collaboration on important areas such as program evaluation and procurement rules and their commitment to expand this cooperation, consistent with their respective mandates, in additional areas of high priority, such as governance, corruption, and capacity building; financial sector fundamentals and reform; and infrastructure financing. Members also

agreed on the importance of MDBs addressing the considerable challenges that remain in further strengthening this cooperation and suggested, in particular, that practical objectives be established for the next few years in areas such as evaluation. They urged the MDBs to continue to work closely with member governments to implement practical measures designed to ensure more effective in-country coordination, based on a shared strategic view, and enhanced development impact.

Hugutte Labelle, President of the Canadian International Development Agency (left), and Omar Kabbaj, President of the African Development Bank.

10. Members requested that the World Bank President inform the Committee at the spring 1999 meeting of progress achieved in strengthening World Bank cooperation with the regional development banks.

11. Ministers also noted that the Committee had made notable progress over the last two years on a number of important issues with broad systemic significance for all MDBs and the IMF, such as the HIPC Initiative and governance. This meeting's discussion of the implications of the Asian financial crisis is a further example, and ministers agreed that the Committee should continue to develop this practice, as recommended in the MDB Task Force report, drawing on contributions where appropriate from other MDBs.

12. *World Bank Net Income Dynamics.* Ministers considered issues raised by a decline in IBRD net income at the same time that potential demands on this income were increasing. They urged the Bank's Board of Directors to review, on an urgent basis, all available options and to make appropriate recommendations and decisions in the next three months.

13. *Next Meeting.* The Committee's next meeting will be held on October 5, 1998, in Washington, D.C. ■

Group of Seven Communiqué

Industrial Countries Welcome Progress on EMU; Call for Japan to Address Financial Problems

Following is the text of the communiqué of the Group of Seven (G-7) industrial countries, issued in Washington on April 15, 1998.

1. We, the Finance Ministers and Central Bank Governors of the G-7 countries, met today to review recent developments in the world economy and financial markets.

G-7 Economies

2. Together with the Managing Director of the International Monetary Fund, Michel Camdessus, we reviewed recent developments in our economies and other economies around the world.

3. Strong growth has continued in North America and the United Kingdom. It is important that the policy framework continue to be directed at a sustainable expansion in these countries and at increasing national savings in the United States.

4. In France, Germany, and Italy, economic growth gained momentum in 1997 and is expected to strengthen further this year. It is important that recovery on the Continent be increasingly based on sustained growth of domestic demand. Continuing structural reforms will also be needed to combat persistent high unemployment and provide a sound basis for growth.

5. The challenges facing Japan are serious and have intensified in recent months. We welcomed the recent announcement of an economic policy program directed at spurring a substantial strengthening of domestic demand and reviving business and consumer confidence. What is crucial is to implement quickly a strong program of effective fiscal measures and structural reforms. We also welcomed the progress Japan is making in implementing its Big-Bang financial liberalization initiative and encouraged the Japanese authorities to move forward to address the problems in the financial system.

6. Inflation pressures in the G-7 economies remain under control, with Italy showing particular improvement. But vigilance will, as always, remain necessary to stay on a noninflationary path, particularly in the United States and the United Kingdom, so that sustainable growth can be maintained.

European Economic and Monetary Union

7. We look forward to a successful launch of European Economic and Monetary Union (EMU) that contributes to the stability of the international monetary system. Strong commitment to the fiscal require-

ments of EMU membership, and to efforts to fight high structural unemployment, are key to ensuring a stable and successful EMU. We agreed on the importance of examining these issues further together.

Exchange Rates

8. We discussed developments in our exchange and financial markets. We reaffirmed our view that exchange rates should reflect economic fundamentals and that excess volatility and significant deviations from fundamentals are undesirable. We emphasized that it is important to avoid excessive depreciation where this could exacerbate large external imbalances. In light of this, we support appropriate steps by Japan aimed at stimulating domestic demand led growth and reducing external imbalances, thus also correcting the excessive depreciation of the yen. We will continue to monitor developments in exchange markets and to cooperate as appropriate.

Emerging Markets

9. We welcomed progress toward restoration of financial stability in Asia. We are particularly encouraged by an early return to the capital markets by some countries, the efforts being made toward strengthening financial systems, and the recent strengthening of regional currencies.

10. Despite this progress, substantial challenges lie ahead, and we agreed that this is no time for complacency. A strong and enduring recovery requires a substantial commitment to the macroeconomic and structural reform necessary to restore confidence, with program support from the international financial institutions (IFIs). The international community has a strong interest in seeing recovery in Asia, and we are committed to working with the IFIs toward this goal. In this context, our export credit agencies continue to provide trade finance to countries in this region. We also agreed on the importance of building a social consensus for reform in Asia, which requires action to limit the impact of the crisis on the poor.

11. We welcomed Indonesia's renewed commitment to economic and structural reform and its agreement with the IMF on a new reform program. We urge the Indonesian government to implement its program fully and vigorously, as this is necessary to restore confidence.

12. We reviewed potential risks in a broad range of emerging markets. We welcomed increased differentiation by the markets of the prospects of emerging economies and noted that preemptive policy measures in key cases have helped to contain contagion. We believe that an open global trading system is essential for broad-based prosperity. We encourage emerging and transition economies to pursue strong macroeconomic policies, improved governance and structural reform programs to reduce their vulnerability to contagion, and urged the IFIs to play an active role in supporting these efforts. In this regard, we reiterated the urgent need to approve the proposed New Arrangements to Borrow and quota increase, so that the IMF has the necessary resources to perform its mission at this very critical time.

Development Issues and Africa

13. We noted the economic progress in those developing countries where sound macroeconomic policies, good governance, and market reforms have been pursued vigorously. We reiterated our commitment to support these countries' efforts to integrate into the global economic system. This support includes our efforts, both bilaterally and through the IFIs. In this context, we stressed the importance of appropriate funding for IDA-12, the Enhanced Structural Adjustment Facility (ESAF), and the African Development Bank Group. We also welcomed the progress that has been made toward strengthening the capital structure and governance of the African Development Bank, providing a more solid basis for deeper partnership in the future.

14. We welcomed the progress made in implementing the HIPC debt initiative and note commitments have now been made to provide HIPC debt relief to a number of countries. We applauded Uganda as the first country to receive final HIPC debt relief, reflecting its strong record of reform. We also welcomed the special efforts by the Paris Club, the Bretton Woods institutions, and individual countries in reaching a final decision on Mozambique. We encourage all heavily indebted poor countries to take all the steps necessary to embark by the year 2000 on the process of a sustainable exit from their debt problems. We also continue to urge all creditors to provide interim relief to help buttress debtor countries' reform efforts.

Group of Seven finance ministers and central bank governors during their meeting.

15. In order to help countries fight corruption and bribery, we urged that the MDBs should establish uniform procurement rules and documents of the highest standard, and that the members of the Organization for Economic Cooperation and Development (OECD) and other signatories to the Convention on Combating Bribery should submit the convention for ratification to their legislative bodies—where necessary—and should pass any necessary implementing legislation criminalizing the payment of bribes to foreign officials in international business transactions, with a view to the entry of the convention into force and, in that context, elimination of the tax deductibility of such bribes by the end of the year.

Strengthening International Financial System

16. We reaffirmed our commitment to exploring ways to strengthen the architecture of the international financial system. We welcomed the work going on in a variety of other fora toward this objective, including the APEC Finance Ministers, ASEM, the Manila Group, the Group of 10, the Special Meeting of 22 countries, and the IFIs, including this week's Interim and Development Committee meetings. This work can help build a consensus for action in the key areas we identified at our February 21st meeting in London:

- promoting more efficient functioning of global markets,
- improving transparency and disclosure,
- strengthening financial systems,
- assessing the role of the international community,
- promoting appropriate burden sharing by the private sector.

17. We are looking forward to discussion of these issues with representatives of emerging market countries at meetings later this week. We confirm our intention to produce a progress report on these issues for the meeting of our Heads of State at the Birmingham Summit in May.

18. We applaud the progress made by the OECD with respect to harmful tax competition, and we look forward to receiving their report before the next G-7 Ministerial prior to the Birmingham Summit [on May 15–17, 1998].

19. We discussed this and other work leading up to the Birmingham Summit and plans for the pre-Summit meeting of finance ministers on May 8–9.

Group of Ten Communiqué

Ministers Consider Effects of Aging Populations, Need to Strengthen Emerging Market Economies

Following is the communiqué of the Group of Ten industrial countries, issued in Washington on April 16.

1. The Finance Ministers and Central Bank Governors of the countries of the Group of Ten met in Washington on April 16, 1998, under the Chairmanship of Mr. Gordon Brown, Chancellor of the Exchequer of the United Kingdom. They took note of reports from Mr. Mario Draghi, Chairman of the Deputies of the Group of Ten; Mr. Michel Camdessus, Managing Director of the IMF; Mr. Lawrence Summers, Chairman of Working Party III of the Organization for Economic Cooperation and Development; and Mr. Andrew Crockett, General Manager of the Bank for International Settlement.

Gordon Brown, Chancellor of the Exchequer of the United Kingdom (left), and Edward George, Governor of the Bank of England, at the Group of Ten meeting.

2. The Ministers and Governors considered the potentially profound macroeconomic and financial implications of aging populations assessed in a report prepared under their aegis. They underscored the need for early action in order to minimize the burden of adjustment. They noted that strengthened policy efforts were needed to contain the potentially adverse effects of population aging on future living standards and budget positions that could arise under current pension and health benefit policies. They stressed the importance of appropriately timed fiscal consolidation and of finding means to raise national savings rates. Acknowledging that the choice of how retirement income and health care are provided will depend on national circumstances, they supported the use of mixed approaches based on financially sustainable public pension and health care systems, and increased reliance on private pensions and other forms of private savings as the most promising ways to alleviate demographic pressures arising from aging.

Moreover, recognizing the need to foster the efficient allocation of savings both at home and across borders, they also underscored the importance of strengthening financial infrastructures, encouraging financial transparency, enhancing financial supervision, and eliminating barriers to international capital flows. In view of the expected rise in the number of consumers relative to producers, they emphasized the importance of labor market efficiency and noted the need to remove disincentives to continued participation in the labor force.

3. Ministers and Governors noted that the crisis in Asia had underscored the importance of strengthening financial systems in emerging market economies. They urged the rapid and effective implementation of the concerted strategy to promote financial stability in these economies. They noted the need to work with emerging market economies in taking concrete actions to create a macroeconomic and institutional setting favorable to sound credit cultures and the efficient and continued operation of markets, promote effective stakeholder oversight and good governance of financial institutions, and institute sound regulatory and supervisory arrangements that support and complement market discipline. In particular, they noted the importance of transparency and disclosure, and recommended that greater attention be given to financial stability in multilateral and regional surveillance.

4. Ministers and Governors indicated their continued interest in improving crisis prevention and management. They agreed that the IMF should continue to play a central role in both. They stressed the urgency of finding innovative approaches to achieving closer and faster involvement of the private sector in crisis management and resolution to help contain the risk of moral hazard.

5. Ministers and Governors noted the importance of progress toward capital account convertibility and the contribution that the strengthening of financial systems can make to achieving this objective. They reiterated their view that capital account liberalization, which should be undertaken in an orderly manner, ought to be brought within the purview of the IMF, with its Articles being amended accordingly. ■

Group of 24 Communiqué

Developing Country Ministers Call for Task Force To Study Crisis Response and Social Safety Nets

Following is the text of the press communiqué issued after the meeting of the Ministers of the Intergovernmental Group of 24 on International Monetary Affairs in Washington on April 14.

World Economy

1. Ministers note with concern that the growth performance of the world economy has been weaker than expected, due predominantly to the Asian crisis. While the financial crisis may have been contained to a large extent as a result of the courageous efforts by affected countries with unprecedented support from the international community, the full repercussions of the Asian crisis have yet to run their course, particularly where the economies of the developing countries are concerned. In particular, the decline in oil and other primary commodity prices and the reevaluation of country risks resulting in decreased investment and financial flows to the developing countries are likely to delay the affected countries' adjustment and increase social costs. This in turn adversely affects these countries' growth prospects and limits their strong contribution to the world economy. Developments in some major industrial countries also add to uncertainties regarding prospects for global growth.

International Monetary System

2. The Asian crisis, which has triggered deflationary pressures throughout the world, demonstrates the importance of intensifying cooperation among developed and developing countries on the one hand and the international financial institutions on the other hand in the process of integrating the developing countries into the global economy. At the same time, the imminent introduction of a new currency—the euro—into the global economy creates more challenges for macroeconomic policy formulation associated with the functioning of the international financial system, so far based on national currencies. These developments call for strengthened

Abdelkrim Harchaoui, Chairman of the G-24 (left); and Mohamed Terbèche, Chairman of the G-24 Deputies.

international cooperation to improve the functioning of the global economy in order to reduce the potential costs and risks of globalization for its participants and to ensure that the potential benefits accrue to all countries.

3. The Group of 24 calls for a wide-ranging review by a task force comprising industrial and developing countries with representation based on the principle of inclusion, not exclusion of the following issues:

• the capacities and modalities of the international monetary and development finance institutions to prevent, and to respond in a timely and effective manner to, crises induced by large-scale capital movements;

• the appropriateness of the conditions prescribed by these institutions to deal with such crises;

• the equitable sharing of the costs of post-crisis financial stabilization among private creditors, borrowers, and governments;

• the more effective surveillance of the policies of major industrialized countries affecting key international monetary and financial variables, including capital flows;

• the strengthening of social safety nets as integral elements of stabilization and adjustment programs to protect the most vulnerable segments of the population;

• the increased representation and participation of developing countries at the decision-making level of international financial institutions to properly reflect developing countries' growing role in the world economy, including through the revision of the bases determining the voting power in these institutions; and,

• the need to enhance the role of SDRs in the international monetary system to achieve greater stability, particularly in view of the prospect of an emerging polarization around three major currencies.

4. The central role of the IMF in the international monetary system and the deterioration of its liquidity position emphasize the need to increase the IMF's ordinary resources. Ministers therefore urge members to accelerate the implementation of the quota increase under the Eleventh Review.

Capital Account Liberalization

5. Ministers recognize that the benefits of further liberalization of capital movements depend on the prevailing circumstances of each country. Given the universal nature of the IMF's membership, Ministers believe that the IMF can play a leading role in promoting an orderly and gradual liberalization of capital movements, while being sensitive to the particular situation of each country and in the context of well-specified policies and, where needed, adequate technical assistance. To this end, any amendment of the Articles of Agreement should be designed to promote cautious and well-sequenced capital account liberalization. This would also entail amending the Articles of Agreement to eliminate current limitations on the use of IMF resources in the event of capital outflows.

Governance

6. Ministers reaffirm their commitment to the principles of good governance, which include transparency, accountability, and the rule of law, and support the fight against corruption, money laundering, and all other forms of economic crime. They welcome the principles expressed in the OECD Convention on Combating Bribery of Foreign Public Officials, asserting that the fight against corruption must be carried out on the basis of symmetry with regard to the responsibility of both developed and developing country governments.

7. Ministers are following with interest the ongoing process toward reaching agreement on key principles of fiscal transparency and emphasize the need for their symmetrical application, with due regard to countries' institutional arrangements and capabilities and resource constraints. They stress the need for the international community, in particular the IMF, to provide the necessary technical assistance to help countries meet the requirements of these principles.

Treatment of Debt

8. To enable heavily indebted countries to achieve sustainable growth, Ministers reiterate their call for provision of substantial concessional financial flows to these countries and for a flexible treatment of their external debt.

9. Ministers express their deep concern that official development assistance (ODA) from the OECD countries fell to 0.25 percent of GNP in 1996, the lowest level in the last three decades, and that ODA has continued in 1997 its declining trend that began in the early 1990s. In particular, they note that this decline comes at a time when the poorest countries are in need of ODA to fight poverty. In this context, they reiterate their call on the international donor community to reverse this trend, with a view to achieving the 0.7 percent of GNP goal. They stress again the need to replenish IDA-12 resources to a level at least equivalent to IDA-10 in real terms.

10. Ministers welcome the recent internal and external evaluation of experience with the Enhanced Structural Adjustment Facility (ESAF), which remains an important vehicle for fostering adjustment and growth in low-income countries. They attach great importance to an early implementation of the findings of these reviews in order to strengthen this facility, in particular with regard to the social implications of adjustment and program ownership.

11. Ministers note with concern the delays and difficulties in securing the financing of the continuation of ESAF operations and of the Heavily Indebted Poor Countries (HIPC) Initiative. They reiterate their view that, in order to achieve this objective, there is an urgent need that the question of bilateral contributions be satisfactorily resolved by all creditors on an equitable burden-sharing basis, particularly by finalizing bilateral commitments; and decision be taken with regard to the optimiza-

tion of the management of the IMF's reserves, including through the sale of a portion of its gold holdings.

12. Ministers welcome the progress report on the implementation of the HIPC Initiative. However, they note that implementation is still slower than expected. They believe that enhancing the effectiveness and credibility of the Initiative will require that flexibility be introduced in the implementation of the Initiative, so as to extend the benefits to a larger number of developing countries; and efforts also be made to reduce substantially the time needed for effective debt relief for eligible countries, including through the shortening of the period between decision and completion points.

13. Ministers endorse the debt initiative expressed in the Mauritius Mandate and reiterate the need for further efforts to seek permanent, creative, and timely solutions to the debt problem within the context of an equitable burden-sharing arrangement.

14. Ministers acknowledge the continued efforts by African Governors and governments to enhance human resources and to strengthen institutional capacity in sub-Saharan Africa. They reiterate their call on the donor community to provide the necessary support to the Partnership for Capacity Building in Sub-Saharan Africa.

15. Ministers welcome the agreement to increase the capital of MIGA, which they view as a positive indication of the will to mobilize other resources in support of sustainable growth, especially in the developing countries. Ministers believe that increasing the capital of MIGA will enable it to expand the scope of its involvement to ensure better coverage of development-related fields.

16. Ministers considered issues raised by a decline in IBRD net income at the same time that potential demands on this income were increasing. They urge the Bank's Executive Board to review, on an urgent basis, all available options and to make appropriate recommendations based on the principle of equitable burden sharing, while permitting it to meet its members' highest priorities for the use of net income.

17. Ministers wish to express their satisfaction with the ongoing efforts of the multilateral development banks (MDBs) in the areas of coordination, consultation, and information exchanges. They believe that the coordination of MDB activities should be widened to involve the appropriate targeting of areas of intervention, in light of these institutions' mandates and actual financing capacities.

From the Executive Board

Following are excerpts from recent IMF press releases. Full texts are available on the IMF's web site (http://www.imf.org/external) or on request from the IMF's Public Affairs Division (fax: (202) 623-6278).

Tajikistan: Post-Conflict Assistance

The IMF approved a credit for the Republic of Tajikistan equivalent to SDR 7.5 million (about $10 million)—the second for Tajikistan under the IMF's emergency post-conflict assistance—to support the government's economic program for 1998. The first credit, also for SDR 7.5 million (about $10 million) was approved on December 19, 1997 (see Press Release No. 97/61, *IMF Survey*, January 12).

Tajikistan: Selected Economic Indicators

	1996	1997[1]	1998[2]
	(percent change)		
Real GDP	–4.4	2.2	4.4
Consumer prices (end-of-period)	40.5	163.6	18.1
	(percent of GDP)		
Fiscal balance (cash)	–5.8	–3.4	–2.7
External current account balance (excluding official transfers)	–10.1	–4.1	–6.8
	(months of imports)		
Gross international reserves	0.3	0.7	1.4

[1]Preliminary.
[2]Projections.

Data: Tajik authorities and IMF staff estimates and projections

Program for 1998

The government's 1998 economic program covers a transitional phase possibly leading to a program supported by loans under the Enhanced Structural Adjustment Facility (ESAF). Progress in institution building will be critical in laying the foundation for such a successor program.

Under the current program, real GDP growth is expected to reach 4–5 percent in 1998, compared with preliminary rates of about 2 percent in 1997 and about –4 percent in 1996; inflation is targeted to fall to about 18 percent during 1998, from about 164 percent during 1997; and gross international reserves are programmed to rise to the equivalent of 1.4 months of imports at end-1998, from 0.7 month at end-1997, and 0.3 month at end-1996.

To achieve these objectives, fiscal policy is designed to further reduce the government deficit to below 3 percent of GDP in 1998, from 3.4 percent in 1997, and 5.8 percent in 1996.

Structural Reforms

Banking sector reform, which is crucial to achieve sustainable and balanced economic growth, will consist of two main elements. First, the regulatory and institutional environment for banking will be enhanced through a New Banking Law and the strengthening of the National Bank of Tajikistan's banking supervision capacity. Second, plans for the restructuring of the five major banks will be developed once internationally reputable auditors have completed audits.

Privatization plans, while taking into account institutional constraints to rapid privatization, call for the sale of smaller enterprises and the restructuring and sale of medium- and large-scale enterprises.

Addressing Social Needs

In view of the social cost of the war, outlays on the social safety net will need to be increased. The financial position of the Social Protection Fund will be reassessed to determine whether a further increase in minimum and social pensions is feasible.

Tajikistan joined the IMF on April 27, 1993, and its quota is SDR 60 million (about $80 million). Its outstanding use of IMF financing currently totals SDR 22.5 million (about $30 million).

Press Release No. 98/10, April 1

Guinea: ESAF

The IMF has approved the second annual loan under the Enhanced Structural Adjustment Facility (ESAF) for Guinea, in an amount equivalent to SDR 23.6 million (about $31 million), to support the government's economic program for 1998–2000. The loan is available in two equal semiannual installments, the first of which, equivalent to SDR 11.8 million (about $16 million), will be made available on April 15, 1998.

Program for 1998

The 1998 program calls for tight financial policies and further structural reforms to consolidate the stabilization under way and to create appropriate conditions for sustainable and diversified economic growth. The basic

Members' Use of IMF Credit
(million SDRs)

	March 1998	Jan.–Mar. 1998	Jan.–Mar. 1997
General Resources Account	207.02	3,827.69	1,015.01
Stand-By Arrangements	200.00	3,236.27	245.98
Of which: Supplemental Reserve Facility	0.00	3,000.00	0.00
EFF Arrangements	7.02	591.42	769.03
CCFF	0.00	0.00	0.00
SAF and ESAF Arrangements	160.47	188.21	96.97
Total	367.49	4,015.90	1,111.98

Note: EFF = Extended Fund Facility
CCFF = Compensatory and Contingency Financing Facility
SAF = Structural Adjustment Facility
ESAF = Enhanced Structural Adjustment Facility
Figures may not add to totals shown owing to rounding.

Data: IMF Treasurer's Department

Guinea: Selected Economic Indicators

	1996[1]	1997[1]	1998[2]	1999[2]	2000[2]
			(percent change)		
Real GDP	4.6	4.7	5.0	5.5	6.0
Consumer prices (end of period)	2.1	5.2	3.5	3.5	3.5
			(percent of GDP)		
Overall fiscal balance (before grants)	–6.1	–6.0	–5.9	–5.7	–5.7
Primary domestic Budget balance	1.3	2.8	2.9	4.0	4.3
External current account balance (excluding official transfers)	–7.7	–7.7	–7.7	–6.6	–6.1
			(months of imports)		
Gross official international reserves	2.4	3.0	3.4	3.4	3.4

[1]Estimates.
[2]Program.

Data: Guinean authorities; and IMF staff estimates and projections.

macroeconomic objectives are to achieve a growth rate of 5.0 percent in real terms; bring down inflation to about 3.5 percent; and contain the current account deficit at 7.7 percent of GDP, excluding official transfers, and increase gross official reserves to the equivalent of 3.4 months of imports. To meet these objectives, fiscal policy is targeting a domestic primary budget surplus of 2.9 percent of GDP. Monetary policy is designed to support the external sector and achieve the inflation objectives of the program.

Structural Reforms

The government will complete the liquidation of the Banque Internationale pour l'Afrique en Guinée (BIAG) and the restructuring of three ailing banks. Bank supervision will be tightened and prudential regulations will be enforced more strictly. In addition to these banking sector reforms, the government intends to quicken the pace of privatization and public sector restructuring, accelerate the reform of the judicial sector, and reinforce the efficiency of the civil service.

Addressing Social Needs

With the support of donors and lenders, significant progress has already been made in education: imbalances between rural and urban areas have been reduced, and enrollment ratios for girls have improved to 35.5 percent in 1996/97 from 25.7 percent in 1993/94. The government will increase its nonwage expenditure on health and ensure its efficient use.

Guinea joined the IMF on September 28, 1963, and its quota is SDR 78.7 million (about $105 million). Its outstanding use of IMF financing currently totals SDR 71.7 million (about $96 million).

Press Release No. 98/11, April 3

Mozambique: Debt-Relief Package Under HIPC

The World Bank and the IMF, along with other creditors, agreed to provide exceptional support amounting to nearly $3 billion in nominal terms in debt-service relief for Mozambique. The assistance under the Initiative for Heavily Indebted Poor Countries (HIPC) will reduce the external debt burden, free budgetary resources, and allow Mozambique to broaden the scope of its development effort.

This assistance to Mozambique will reduce its external debt by $1.4 billion in net present value terms in June 1999, which translates into debt-service relief over time of nearly $3 billion. This assistance represents over 70 percent of Mozambique's 1997 gross domestic product. The World Bank and the IMF will contribute $324 million and $105 million, respectively, in net present value terms. This package is subject to confirmation by all Mozambique's other creditors and continued implementation of its economic and social reform agenda.

The World Bank will provide part of its contribution in the form of International Development Association (IDA) grants—as opposed to normal credits. The remainder of IDA support to Mozambique will be channeled through the HIPC Trust Fund. The total amount of debt-service savings generated by the World Bank will be $880 million. The IMF will provide its assistance in June next year in the form of a grant to be used to service debt falling due to the IMF. Total debt-service savings will be $124 million.

The debt relief agreed today is part of a broader effort, including other ongoing traditional debt-relief mechanisms. All of these efforts combined will reduce Mozambique's external debt from $5.6 billion in net present value terms in late 1996 to $1.1 billion in June 1999 when the HIPC package is implemented. Debt-service payments will be reduced to below 20 percent of

Selected IMF Rates

Week Beginning	SDR Interest Rate	Rate of Remuneration	Rate of Charge
April 6	4.26	4.26	4.56
April 13	4.23	4.23	4.53
April 20	4.24	4.24	4.54

The SDR interest rate and the rate of remuneration are equal to a weighted average of interest rates on specified short-term domestic obligations in the money markets of the five countries whose currencies constitute the SDR valuation basket (the U.S. dollar, weighted 39 percent; deutsche mark, 21 percent; Japanese yen, 18 percent; French franc, 11 percent; and U.K. pound, 11 percent). The rate of remuneration is the rate of return on members' remunerated reserve tranche positions. The rate of charge, a proportion (currently 107 percent) of the SDR interest rate, is the cost of using the IMF's financial resources. All three rates are computed each Friday for the following week. The basic rates of remuneration and charge are further adjusted to reflect burden-sharing arrangements. For the latest rates, call (202) 623-7171.
Data: IMF Treasurer's Department

export earnings. The stock of debt in net present value terms will be reduced to 200 percent of exports, compared to 466 percent without the Initiative.

Mozambique is the sixth country to benefit under HIPC, raising the total debt relief committed under the Initiative to nearly $6 billion in nominal debt-service relief and $3 billion in net present value terms.

Press Release No. 98/12, April 7

Uganda: Debt-Relief Package Under HIPC

The World Bank and the IMF agreed that Uganda has met the requirements for receiving close to $650 million in debt relief from its external creditors, under the Initiative for Heavily Indebted Poor Countries (HIPC). Uganda has established a strong track record of economic management and policy

Members drawing on the IMF "purchase" other members' currencies, or SDRs, with an equivalent amount of their own currency.

Stand-By, EFF, and ESAF Arrangements as of March 31

Member	Date of Arrangement	Expiration Date	Amount Approved	Undrawn Balance
			(million SDRs)	
Stand-By Arrangements			27,302.44	11,347.47
Bulgaria	April 11, 1997	June 10, 1998	371.90	124.30
Cape Verde	February 20, 1998	April 19, 1999	2.10	2.10
Djibouti	April 15, 1996	June 30, 1998	6.60	2.63
Egypt	October 11, 1996	September 30, 1998	271.40	271.40
El Salvador	February 28, 1997	May 30, 1998	37.68	37.68
Estonia	December 17, 1997	March 16, 1999	16.10	16.10
Indonesia	November 5, 1997	November 4, 2000	7,338.24	5,136.77
Korea[1]	December 4, 1997	December 3, 2000	15,500.00	4,300.00
Latvia	October 10, 1997	April 9, 1999	33.00	33.00
Romania	April 22, 1997	May 21, 1998	301.50	180.90
Thailand	August 20, 1997	June 19, 2000	2,900.00	900.00
Ukraine	August 25, 1997	August 24, 1998	398.92	217.59
Uruguay	June 20, 1997	March 19, 1999	125.00	125.00
EFF Arrangements			12,335.70	6,943.65
Algeria	May 22, 1995	May 21, 1998	1,169.28	168.88
Argentina	February 4, 1998	February 3, 2001	2,080.00	2,080.00
Azerbaijan	December 20, 1996	December 19, 1999	58.50	26.33
Croatia, Republic of	March 12, 1997	March 11, 2000	353.16	324.38
Gabon	November 8, 1995	November 7, 1998	110.30	49.63
Jordan	February 9, 1996	February 8, 1999	238.04	59.18
Kazakhstan	July 17, 1996	July 16, 1999	309.40	309.40
Moldova	May 20, 1996	May 19, 1999	135.00	97.50
Pakistan	October 20, 1997	October 19, 2000	454.92	417.01
Panama	December 10, 1997	December 9, 2000	120.00	110.00
Peru	July 1, 1996	March 31, 1999	300.20	139.70
Russian Federation	March 26, 1996	March 25, 1999	6,901.00	3,064.74
Yemen	October 29, 1997	October 28, 2000	105.90	96.90
ESAF Arrangements			4,357.04	2,270.25
Armenia	February 14, 1996	February 13, 1999	101.25	33.75
Azerbaijan	December 20, 1996	December 19, 1999	93.60	38.02
Benin	August 28, 1996	August 27, 1999	27.18	18.12
Bolivia	December 19, 1994	September 9, 1998	100.96	0.00
Burkina Faso	June 14, 1996	June 13, 1999	39.78	19.89
Cameroon	August 20, 1997	August 19, 2000	162.12	135.10
Chad	September 1, 1995	August 31, 1998	49.56	16.52
Congo, Republic of	June 28, 1996	June 27, 1999	69.48	55.58
Côte d'Ivoire	March 17, 1998	March 16, 2001	285.84	202.47
Ethiopia	October 11, 1996	October 10, 1999	88.47	73.73
Georgia	February 28, 1996	February 27, 1999	166.50	55.50
Ghana	June 30, 1995	June 29, 1998	164.40	68.50
Guinea	January 13, 1997	January 12, 2000	70.80	47.20
Guinea-Bissau	January 18, 1995	July 24, 1998	10.50	0.00
Guyana	July 20, 1994	April 17, 1998	53.76	0.00
Haiti	October 18, 1996	October 17, 1999	91.05	75.88
Kenya	April 26, 1996	April 25, 1999	149.55	124.63
Macedonia, FYR	April 11, 1997	April 10, 2000	54.56	36.37
Madagascar	November 27, 1996	November 26, 1999	81.36	54.24
Malawi	October 18, 1995	October 17, 1998	45.81	15.27
Mali	April 10, 1996	April 9, 1999	62.01	20.67
Mauritania	January 25, 1995	July 13, 1998	42.75	0.00
Mongolia	July 30, 1997	July 29, 2000	33.39	27.83
Mozambique	June 21, 1996	June 20, 1999	75.60	37.80
Nicaragua	March 18, 1998	March 17, 2001	100.91	84.09
Niger	June 12, 1996	June 11, 1999	57.96	28.98
Pakistan	October 20, 1997	October 19, 2000	682.38	568.65
Sierra Leone	March 28, 1994	May 4, 1998	101.90	5.06
Tanzania	November 8, 1996	November 7, 1999	161.59	74.47
Togo	September 16, 1994	June 29, 1998	65.16	10.86
Uganda	November 10, 1997	November 9, 2000	100.43	80.34
Yemen	October 29, 1997	October 28, 2000	264.75	220.75
Zambia	December 6, 1995	December 5, 1998	701.68	40.00
Total			43,995.18	20,561.37

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

Data: IMF Treasurer's Department

reform. It was the first country declared eligible for such assistance in April 1997, and it now becomes the first country to receive debt relief under the Initiative.

Discounted to today's values (that is, in net present value terms), relief from all of Uganda's creditors will be worth $350 million, to which the World Bank and the IMF will contribute about $160 million and $69 million, respectively. This amounts to a 20 percent reduction in Uganda's external debt. Over time, the contributions of the Bank and the IMF will relieve debt-service payments equivalent to about $355 million and $80 million, respectively. The Bank's assistance will cover between 38 and 50 percent of Uganda's annual debt service to IDA over the next five years. The IMF will provide its assistance ($69 million) as a grant to pay part of the debt service falling due to it. This will cover about 22 percent of Uganda's annual debt service to the IMF on average over the next nine years.

Background on the HIPC Initiative

The HIPC Initiative was approved in September 1996 as a means of dealing comprehensively with the debt burdens of the world's poorest countries. It offers significant assistance to countries facing unsustainable external debt obligations, after the full application of traditional debt-relief mechanisms, provided they are successfully implementing economic and social reforms. Under the HIPC Initiative, assistance is provided after a period of monitoring of economic performance. In addition to Uganda, Bolivia, Burkina Faso, Guyana, Côte d'Ivoire, and Mozambique have qualified for HIPC assistance. They will receive assistance once the period of further monitoring (up to three years) is completed. The total amount of debt relief expected for all six countries is nearly $6 billion in nominal terms.

Press Release No. 98/13, April 8

Senegal: ESAF

The IMF has approved a new three-year loan for Senegal under the Enhanced Structural Adjustment Facility (ESAF), in an amount equivalent to SDR 107.0 million (about $144 million), to support the government's economic program for 1998–2000. The first annual loan, equivalent to SDR 35.7 million (about $48 million), is available in two equal semiannual installments, the first of which, equivalent to SDR 17.8 million (about $24 million), will be made available on April 30, 1998.

Medium-Term Strategy and 1998 Program

The authorities' program for 1998–2000 aims primarily at establishing the conditions to achieve real GDP growth of 5–6 percent a year, thereby allowing per capita income to increase by 2–3 percent a year; keeping inflation at less than 3 percent; and reducing the external current account deficit (excluding official transfers) to less than 7 percent of GDP by 2000. Consistent with the medium-term objectives, the program for 1998 aims at achieving an increase in real GDP of 5.3 percent, limiting average inflation to 2.4 percent, and containing the external current account deficit (excluding official transfers) to 7.3 percent of GDP. To meet these objectives, fiscal policy is geared toward limiting the overall fiscal deficit, on a commitment basis and excluding grants, to 2 percent of GDP in 1998.

Senegal: Selected Economic Indicators

	1996	1997[1]	1998[2]	1999[2]	2000[2]
			(percent change)		
Real GDP	5.7	5.2	5.3	6.5	6.0
Consumer prices (annual average)	2.8	1.8	2.4	2.0	2.0
			(percent of GDP)		
Overall fiscal balance (before grants)	–2.2	–1.5	–2.0	–1.0	–0.6
External current account balance (excluding official transfers)	–7.7	–6.7	–7.3	–6.8	–6.7

[1]Estimates.
[2]Projections.

Data: Senegalese authorities and IMF staff estimates and projections

Structural Reforms

The authorities are committed to speeding up the implementation of their unfinished reform agenda, particularly in the areas of public enterprise and energy sector reforms, and to undertaking new reforms to modernize public administration.

Addressing Social Needs

The government will strengthen its program to develop human resources. In the education sector, the government's objective, among others, is to improve the quality of education at all levels. Also, the authorities will implement a national health development plan for the period 1998–2007.

Senegal joined the IMF on August 31, 1962, and its quota is SDR 118.9 million (about $160 million). Its outstanding use of IMF financing currently totals SDR 208 million (about $279 million).

Press Release No. 98/14, April 21

Press Information Notices

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

Spain, No. 25, April 6
El Salvador, No. 26, April 6
Nicaragua, No. 27, April 9
Botswana, No. 28, April 10
Sudan, No. 29, April 13
Latvia, No. 30, April 14

Full texts of PINs are available on the IMF's web site (http://www.imf.org/pins).

World Economic Outlook

Effects of Asian Crisis Add to Uncertainty Of World Economic Prospects

The financial turmoil in Asia that erupted in mid-1997 has abated since January 1998, and, according to the spring 1998 *World Economic Outlook*—the IMF's twice-yearly survey of global economic prospects and policies—markets have partially recovered. Nevertheless, currency and asset values in the countries most deeply involved in the crisis remain far below pre-crisis levels, and considerable uncertainty remains about the resolution of the crisis and its global repercussions. Further, it is already apparent, according to the *World Economic Outlook*—the published edition of which will be available in mid-May—that the effects of the crisis are likely to be more severe than initially perceived, and growth projections have been revised downward since the December 1997 interim assessment of the *World Economic Outlook* (see *IMF Survey*, January 12).

Michael Mussa, Director of the IMF's Research Department (right), talks to reporters during the press briefing on the World Economic Outlook.

At a press briefing on April 13, Michael Mussa, IMF Economic Counsellor and Director of the Research Department, said that many of the downside risks that had been of concern at the time of the December 1997 interim assessment had materialized. As a result, in the spring 1998 *World Economic Outlook*, the forecasts for world growth in 1998 have again been revised downward by a further 1/2 percentage point to just over 3 percent. The downward revision, Mussa said, reflects almost exclusively the lower expected growth in Asia. For Indonesia, Korea, Malaysia, the Philippines, and Thailand, the growth forecast has been knocked down by another 4 percent on average. For Japan, the *World Economic Outlook* has revised its growth projection down to a "flat zero."

Compared with other slowdowns in the past 25 years, however, the projected global slowdown is relatively mild, the *World Economic Outlook* observes. The new growth projection for 1998 remains notably higher than the 1 3/4 to 2 3/4 percent registered during the global slowdown of 1990–93 and only slightly below the trend rate of growth of the past two decades.

Global economic growth in the medium term is still projected to exceed the average rate observed since 1970, reflecting a continued strengthening of growth in the countries in transition, the relatively strong and sustained growth performance of the developing world in the early and mid-1990s, and a recovery of confidence and a resumption of growth by 2000 in the economies of Asia.

Inflation is expected to remain low in the advanced economies and to moderate further in the developing countries and the countries in transition. Recent and expected commodity price developments should help keep global inflation low in the near future. The growth of world trade volume in 1997, at 9 1/2 percent, was similar to the expansions in 1994–95, which were the fastest in two decades. Although trade growth is expected to slow to about 6 1/2 percent in 1998, this would be above the average for the 1990s.

Weighing the Risks

During the press briefing, Mussa said the risks to the 3 percent growth forecast for 1998 were about evenly balanced. The downside risk in Asia and several developing countries that are heavily dependent on commodity exports was counterbalanced by some upside potential in both North America and continental Europe.

Although the balance of risk remains on the downside for Asia, Mussa said it "now seems to be reasonably contained," compared with earlier projections in October and December 1997, "although we are probably still a little optimistic." The *World Economic Outlook* notes that for the economies at the heart of the crisis—Indonesia, Korea, and Thailand—the drying up of private foreign financing, together with large currency depreciations and declines in asset prices, is causing sharp contractions of domestic demand that will be only partially counterbalanced by increased net exports this year. Similar forces on a smaller scale have lowered near-term growth prospects for Malaysia, the Philippines, and several other countries in east Asia. Although, according to the staff report, painful adjustments are yet to come, there are grounds for expecting a continuing recovery of confidence in these economies in the year ahead, followed by a moderate pickup in activity in 1999. For Korea and

Thailand, Mussa said, the turnaround will probably come in the summer or fall of 1998. In the case of Indonesia, however, there remain great uncertainties, and it is "simply too early to perceive when the turnaround for the real economy might come."

Advanced Economies

All the countries in this category will be affected by the Asian crisis, although the impact and implications for policy will vary, depending on individual circumstances. Compared with the October 1997 *World Economic Outlook*, the projections for growth in the advanced economies have been revised downward by about $^1/_2$ of 1 percent to 2.4 percent for 1998.

Though aggravated by the difficulties of many of its Asian trading partners, the faltering of Japan's recovery in 1997 can, the *World Economic Outlook* notes, be largely attributed to homegrown problems, including financial sector weaknesses, delays in the implementation of structural reforms needed to reinvigorate the economy, and a large withdrawal of fiscal stimulus in 1997 when the recovery was still fragile. During the press briefing, Mussa said that the Japanese economy poses another potential downside risk to the 3 percent forecast for world growth in 1998. Domestic demand fell almost 2 percent in 1997, and indications are that GDP was "headed downward" in the first half of 1998. He noted that recently announced fiscal stimulus measures expected to be enacted later this spring would probably have their primary impact on the economy in the second half of 1998 and the first half of next year—about $1^1/_2$ percentage points of GDP; this stimulus, he said, should be sufficient to turn domestic demand growth from negative to slightly positive.

For the newly industrialized economies of Asia, growth projections for 1998 have been marked down substantially. Spillover effects from the regional crisis are also expected to slow growth in Hong Kong SAR, Singapore, and Taiwan Province of China.

The advanced economies of North America and Europe will generally be less adversely affected by the crisis. U.S. economic performance in 1997 was exceptionally favorable, with the fastest growth in 9 years, the lowest inflation in 32 years, the lowest unemployment in 24 years, and virtual balance in the federal budget for the first time since the early 1970s. The crisis and its repercussions appear to have obviated the immediate need for a tightening of monetary policy to restrain the growth of demand. Growth elsewhere in North America and western Europe has been well sustained and appears likely to remain so in the period ahead.

In a review of issues related to European Economic and Monetary Union (EMU), the *World Economic Outlook* notes that policy requirements in Europe in the period ahead have to be considered in the context of EMU, stage 3 of which is due to begin on January 1, 1999, with the locking of exchange rates. There continue to be reasons for concern about the lack of progress toward greater flexibility of both labor and product markets. In particular, the failure to reform Europe's labor market is, according to the *World Economic Outlook*, "clearly the Achilles' heel of the EMU project."

Developing Countries

Developing countries in all regions are being adversely affected to varying degrees by the Asian crisis, according to the *World Economic Outlook*. Lower commodity prices and stepped-up efforts to address domestic and external imbalances are likely to cause most developing countries to experience at least moderate slowdowns in growth in 1998. For developing countries as a whole, the *World Economic Outlook* projects a slowdown to about 4 percent in 1998 from $5^3/_4$ percent in 1997. Most emerging market countries are expected to experience a mild strengthening in 1999. In contrast to the rest of the developing world, growth in Africa is projected to rebound to around $4^1/_2$ percent in 1998.

Countries in Transition

For the countries in transition, the *World Economic Outlook* has revised short-term growth projections downward—by about $1^1/_4$ percent from the October 1997 *World Economic Outlook*—to 3 percent, partly because of the expected effects of the Asian crisis. These revisions nevertheless leave growth in the group on a rising trend, and the projections also envisage that the transition countries will continue to be able to finance moderate current account deficits. In 1998, for the first time since the transition began, nearly all of the transition countries are expected to experience increases in activity; and the overall expansion is expected to strengthen further in the medium term.

In an analysis of fiscal policy in transition countries, the *World Economic Outlook* notes that attaining reasonable balance in fiscal positions has played a critical role in the initial achievement of macroeconomic stability for the transition countries. With the initial task of stabilization complete or nearly complete in most transition countries, the focus of fiscal policy is shifting to the challenges of ensuring a sustainable path in the future. Countries now need to implement "second generation" reforms aimed at improving the quality and efficiency of government, including improvements in the institutional framework supporting the budgetary process and in the transparency of fiscal accounts.

Lessons from the Asian Crisis

The economies of east Asia have been among the most successful emerging market countries. With generally prudent fiscal policies and high private saving rates, these countries had become a model for many others. Yet, these countries became embroiled in one of the worst financial crises in the postwar period. In trying to find the answer

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to what went wrong, the *World Economic Outlook* suggests that the success of these countries may have led domestic and foreign investors to underestimate the countries' economic weaknesses. Also, the large-scale financial inflows these countries attracted increased demands on policies and institutions, especially in the financial sector, that were ill-equipped or not sufficiently developed to absorb or regulate them. The fundamental policy shortcomings and their ramifications were fully revealed only as the crisis deepened. Past success may also have contributed to a tendency toward denial by policymakers of the need for action when problems first became apparent.

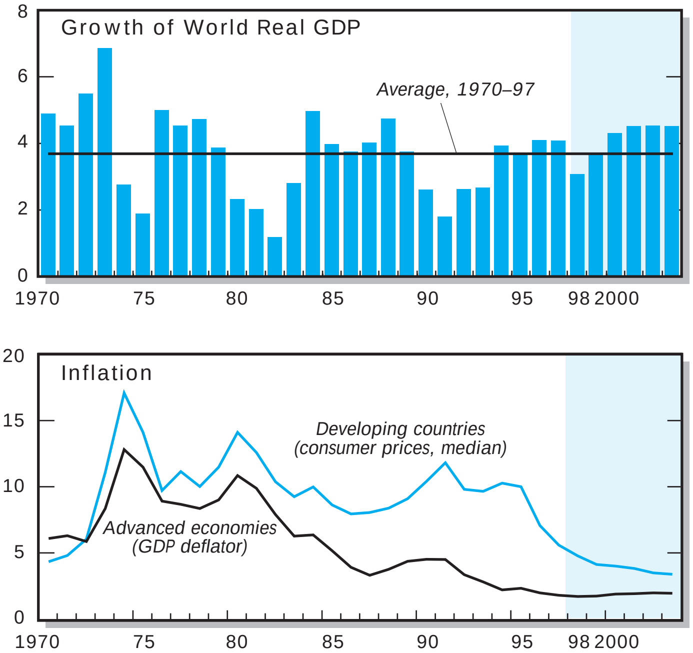
To contain the economic damage caused by the crisis, the countries directly affected have needed to implement corrective measures, and the international community, led by the IMF, has provided financial support for policy programs in the countries worst hit—Indonesia, Korea, and Thailand. Unfortunately, in these cases, the *World Economic Outlook* notes, the authorities' initial hesitation in implementing appropriate reforms and other confidence-repairing measures worsened the crisis by causing currency and stock markets to decline well beyond what was justified by any reasonable assessment of market fundamentals. More recently, however, while uncertainties have persisted in Indonesia, it is clear that elsewhere commitments to implement the necessary measures have strengthened substantially.

The strategies needed to restore confidence and support a resumption of growth include a broad range of measures. The basic ingredients of the IMF-supported programs in Indonesia, Korea, and Thailand involve monetary policy sufficiently firm to resist excessive currency depreciation; measures aimed at addressing weaknesses in the financial sector; improvements in public and corporate governance; and fiscal policies to reduce reliance on foreign savings and to take into account the costs of bank restructuring.

In a historical survey of currency and banking crises, the *World Economic Outlook* notes that serious financial crises are not a new phenomenon and will occur again in the future. Countering the potential for new crises is a considerable challenge. Although it is impossible to predict crises reliably, the *World Economic Outlook* analysis indicates that crises typically share a common origin—the buildup of unsustainable economic imbalances. Whether these develop into a crisis depends on the magnitude of the imbalance, policy credibility, and the robustness of the financial sector.

World Output and Inflation

(annual percent change)



Note: Shaded areas indicate IMF staff projections. Aggregates are computed on the basis of purchasing-power-parity weights unless otherwise indicated.

Data: IMF, *World Economic Outlook*, 1998

• *Indicators of vulnerability*. Although crises are rarely identical, there is some scope for being better able to identify vulnerabilities before crises hit. Based on its historical analysis, the *World Economic Outlook* suggests that real exchange rate appreciation, excessive domestic credit expansion, and a rapidly rising ratio of broad money to international reserves have in the past signaled vulnerability to pressures in currency markets. Policymakers can reduce their vulnerability by identifying imbalances early. Other preventive measures include:

• *Sound financial system*. A robust financial system underpinned by effective regulation and supervision of financial institutions is an essential precondition for an orderly liberalization of capital movements.

• *Exchange rate regime*. For some economies, the balance of costs and benefits may be shifting toward greater exchange rate flexibility, partly because of the advantages of avoiding the risk that a fixed exchange rate may encourage excessive foreign currency exposure. The decision to exit from a fixed exchange rate regime is often difficult, particularly if it takes place during periods of currency market stress. To lessen the risk of excessive depreciation, it is essential to implement supporting policy measures and structural reforms and to put in place a new anchor for price and exchange rate expectations. ■

Copies of the May 1998 *World Economic Outlook* will be available in mid-May for $35.00 (academic rate: $24.00) each from IMF Publication Services. See ordering information on page 133.