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Contents

Spring Meetings Overview

IMF Wins Mandate to Cover Capital Accounts, Debt Initiative Put in Motion

Against a backdrop of a healthy and expanding global economy, with the lowest inflation in more than thirty years and cautious optimism blanketing global equity markets, finance ministers and central bank governors of advanced and developing countries met in Washington on April 28. The Interim Committee (of the Board of Governors of the IMF), under the chairmanship of Belgium's Philippe Maystadt, welcomed the prospects for further expansion of world output and trade, the result of sound macroeconomic policies and vigorous structural reforms in many countries. In his opening press conference on April 25, IMF Managing Director Michel Camdessus remarked that global economic prospects warranted "rational exuberance."

Interim Committee Chairman Maystadt and IMF Managing Director Camdessus arriving for the Interim Committee meeting.

In their official communiqués, ministers echoed this optimism. They reaffirmed the continuing importance of sound macroeconomic and structural policies aimed at sustained, noninflationary growth, especially in a world with rapidly integrating markets. In light of the rapid globalization of financial flows, ministers saw IMF surveillance playing a central role in promoting the orderly liberalization of global capital movements. Accordingly, they approved a plan to amend the IMF's Articles of Agreement to extend the IMF's jurisdiction to cover capital movements. Managing Director Camdessus said this achievement incorporated into the IMF's mandate the "unwritten chapter" of the work of Bretton Woods.

Globalization of capital markets also underscores the need for sound financial systems, and ministers called for a concerted international strategy to strengthen banking and financial systems (see box, page 132). To underscore their cooperation in this strategy, on April 26, Managing Director Camdessus and World Bank President James Wolfensohn issued a joint statement clarifying the division of responsibilities between the two institutions and improving procedures for collaboration.

Citing the correction of substantial misalignments among major currencies since the spring of 1995, ministers reaffirmed that exchange rates should reflect economic fundamentals. They said that the reemergence of large external imbalances should be avoided and underscored the "undesirability" of excess volatility and significant deviations from fundamentals. Ministers therefore agreed to monitor developments and cooperate as appropriate in exchange markets.

The Interim Committee welcomed the considerable progress by the IMF and the World Bank in implementing the joint initiative for heavily indebted poor countries (HIPCs). Under the initiative, bilateral and multilateral creditors of indebted poor countries pursuing sound policies provide debt relief to help these countries put their external debt burdens on a sustainable basis over the medium term. The IMF is participating in the initiative (Please turn to the following page)

For highlights of the IMF's May 1997 *World Economic Outlook*, please see page 149.

through its enhanced structural adjustment facility (ESAF)—a concessional financing facility that supports comprehensive macroeconomic and structural reform in low-income countries. Committee members applauded the IMF Executive Board's decision in principle to assist Uganda under the HIPC initiative (see box below) and encouraged all other creditors to take equivalent action as soon as possible.

With regard to strengthening the IMF's resource base, the Interim Committee could not agree on the amount of a quota increase under the Eleventh General Review of IMF Quotas. Ministers were also unable to agree on the size of an "equity" allocation of SDRs, which would enable all IMF members to participate in the SDR system.

Economic Prospects Are Bright

Ministers' discussion of the global outlook for 1997 and the medium term concluded on a note of optimism. Their broad assessment was as follows:

Among those *advanced countries* (see box, page 150) where growth has been relatively strong, the challenge is to sustain the expansion while preventing an upturn of inflation. Japan needs to implement its deregulation program rigorously and adopt appropriate fiscal reforms over the medium term to improve growth prospects, while continental Europe must tackle labor market rigidities to reduce high structural unemployment. Continued efforts by European Union members to meet the Maastricht convergence criteria and adopt broad structural reforms will ensure both longer-term prosperity and a successful European economic and monetary union (EMU), which, in turn, will contribute to a stable international monetary system.

Robust growth is continuing in many *developing countries*. Overheating pressures have abated in many emerging market economies, especially in Asia—where growth has stayed strong for several years. Some countries, however, have to reduce their large current account deficits. Growth in the Western Hemisphere and Middle Eastern regions is expected to gain momentum, with the sustained implementation of sound policies. Ministers were also encouraged by Africa's improved growth performance. A key caveat is that many developing countries have to raise per capita income growth rates substantially to reduce poverty—which indicates the need for accelerated structural reforms and more support from the international community.

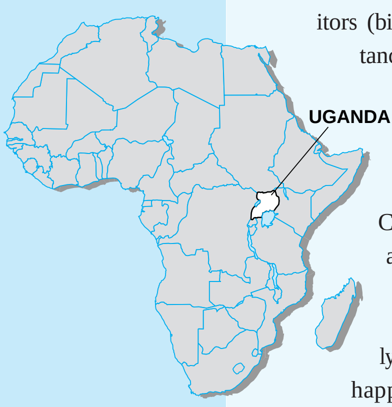
Further progress in controlling inflation and continuing advances in structural reform are laying the ground for stronger growth in the *transition countries*. But sharp contrasts in performance among these countries underscore the benefits of firm commitment to stabilization and structural reform.

Augmenting the Gains of Globalization

A key theme of the Spring Meetings was how best to exploit the opportunities posed by globalization—that is, the rapid integration of global financial flows, trade, technology spillovers, information networks, and cross-cultural currents. Ministers shared the view that increasing globalization of markets is an important force driving world growth and providing opportunities for all countries. While globalization, as with other structural change, may hurt some segments of society

Camdessus Hails Relief for Uganda Under IMF-World Bank Debt Initiative

The joint IMF-World Bank initiative for heavily indebted poor countries (HIPCs) enables countries that have established good policy track records to achieve sustainability in their overall external debt burdens with the participation of all creditors (bilateral and multilateral). Debt reduction assistance under the initiative thus permits eligible countries to exit from the debt-rescheduling process and to focus their energies on striving for sustainable growth and development.



On April 24, IMF Managing Director Michel Camdessus applauded Uganda's eligibility for assistance under the HIPC initiative approved by the Executive Boards of the IMF and the World Bank. "I am certain that this will be an extremely positive signal to the rest of the world, and I was happy to hear that the Ugandan Minister of Planning and Economic Development immediately reacted to this decision by warmly welcoming this package of debt relief," Camdessus said.

Under the initiative, Uganda is expected to receive about $340 million (in net present value terms or in April 1998 U.S. dollars) from all its creditors, which represents a reduction of about 20 percent in Uganda's debt. The IMF share of this assistance is about $70 million. All multilateral creditors are expected to reduce their claims on Uganda in net present value terms by about 20 percent.

In nominal terms, the resulting total reduction in Uganda's debt service is likely to be about $700 million, depending on how the assistance is delivered. The IMF's assistance would be provided at the "completion point" (when the Executive Boards of the IMF and the World Bank decide that the country has met the conditions for action under the initiative—typically, after successful implementation of two three-year adjustment periods, but possibly earlier for countries with sustained records of strong policy performance, such as Uganda). The IMF assistance would take the form of a grant placed in an escrow account and would roughly cover payments in the amount of $90 million, or 30 percent of Uganda's debt-service payments falling due to the IMF over the next nine years.

in the short run, it—in the words of the Managing Director—is a "positive sum game." Thus, policymakers must act to maximize its benefits while protecting vulnerable elements of society from its temporary adverse effects. The Interim Committee underscored that globalization could not be blamed for the declining share of manufacturing employment—or "deindustrialization"—in advanced economies, a phenomenon that mainly reflected technological change.

The Committee reaffirmed the importance of adhering to the Declaration on Partnership for Sustainable Global Growth, adopted in September 1996—sometimes referred to as the 11 commandments of good governance of the world economy (see *IMF Survey*, October 14, 1996, page 313). Implementation of the Declaration is essential for ensuring that all countries share in an increasingly prosperous world economy. The Declaration stresses the mutually reinforcing roles of macroeconomic and structural policies; it calls for sound macroeconomic policies, market-oriented reforms, sound banking systems, trade and investment liberalization, and good governance.

Debt Initiative Advances

The Interim Committee applauded the Executive Board's decision in principle to assist Uganda under the HIPC initiative; Uganda would receive a total of $340 million in debt relief, in net present value terms (a debt reduction of 20 percent), assuming the participation of all Uganda's creditors and its implementation of sound reforms. Ministers encouraged the Board to implement the initiative to ensure a robust exit from the rescheduling process and urged all creditors to provide adequate interim financing (until debt relief is actually delivered).

Underscoring the requirement of a track record of sound policy to qualify for assistance under the HIPC initiative, ministers cited the fundamental importance of sound policies—including social policies—and called on the IMF and the World Bank to help developing countries accelerate structural reforms. At the same time, they urged IMF members to act quickly to complete the funding of the IMF's participation in the HIPC initiative and allow continuation of the ESAF.

In an April 29 meeting chaired by Morocco's Mohamed Kabbaj, the Development Committee (the Joint Ministerial Committee of the Boards of Governors of the Bank and the Fund on the Transfer of Real Resources to Developing Countries) emphasized the need for adequate interim financing of eligible countries prior to the first disbursement and for the close collaboration among all creditors (bilateral and multilateral creditors and the Paris Club). They noted preliminary agreement on the eligibility for debt relief of Bolivia, Burkina Faso, and Côte d'Ivoire, owing to their commitment to sound policies. The Group of 24 developing countries, which met on April 27 under the chairmanship of Venezuela's Antonio Casas González, urged quicker application of—and more flexible terms under—the HIPC initiative.

IMF Surveillance Evolves Further

Ministers hailed the strengthening of IMF surveillance over member country policies to meet the challenges of globalization. Over the past two years—and partly in response to the end-1994 Mexican financial crisis—this strengthening has taken the form of added flexibility, timeliness, and continuity, with more candid policy assessments.

Development Committee Chairman Kabbaj and World Bank President Wolfensohn at the Development Committee press conference.

The Interim Committee supported the IMF's heightened attention to banking and financial sector problems, including its effort—in collaboration with the Basle Committee on Banking Supervision—to develop appropriate banking guidelines and standards. Stable and sound financial systems have clear implications for the core of the IMF's work, because they help ensure favorable macroeconomic policy and performance and efficient functioning of global capital markets. In these areas, the IMF would work in collaboration with the World Bank and other international organizations and groups—such as the Basle Committee. Each institution would focus on its area of comparative advantage, thereby avoiding any potential conflict in standards.

Interim Committee members agreed that an open and liberal system of capital movements benefits the world economy. They considered the IMF uniquely placed to play a central role in promoting the orderly liberalization of capital movements. The Committee thus supported amending the IMF's Articles of Agreement to make the promotion of capital account liberalization a specific purpose of the IMF and to give it jurisdiction over capital movements. The scope of such jurisdiction must be carefully defined, ministers agreed, with sufficient flexibility achieved through transitional provisions and approval policies—the latter to ensure that it was sequenced with structural reform measures and that the pace of liberalization takes into account the particular circumstances of each country. Ministers asked the Executive Board to continue work in this area, with a view to recommending key elements of an amendment by the Interim Committee's September meeting in Hong Kong.

EMU is one of the most important developments since Bretton Woods.

The Interim Committee welcomed progress toward establishing the conditions for EMU, which it termed "one of the most important international monetary developments" since Bretton Woods. It asked the Executive Board to undertake a broad study to assess the implications of EMU for the monetary system and for the IMF (see *IMF Survey*, April 7, page 97, for highlights of the recent IMF conference on EMU). Developing country ministers pressed for IMF leadership to ensure that the transition to a tripolar currency system proceeds with adequate international coordination in order to minimize exchange and capital market instability.

In a further step toward greater transparency of IMF surveillance, the Interim Committee welcomed the Executive Board's decision to allow the release—on a voluntary basis—of "press information notices" following the conclusion of IMF Article IV consultations with member countries. The notices will consist of background information and a forward-looking assessment of the country's policies and performance that will correspond closely to the summing up of the Board discussion (see page 148) and will help clarify market perceptions about the relevant country's policies and prospects.

Ministers were also encouraged by the large and growing number of subscribers to the IMF's Special Data Dissemination Standard—designed for member countries having, or seeking, access to global capital markets (see box, page 133). And they looked forward to the establishment of the General Data Dissemination System—which is intended to improve data quality for all IMF members.

No Progress on Quotas, SDRs

The consideration of a quota increase is driven by the recognition that the IMF requires sufficient liquidity over the medium term to cope with potentially large-scale crises in a globalized monetary system. The Interim Committee failed to make much progress on the Eleventh General Review of Quotas and, specifically, on Managing Director Camdessus's proposal for a quota increase of 55–65 percent—with two-thirds allocated equiproportionally to member countries. The Committee nonetheless agreed that the quota increase should be predominantly equiproportional while correcting the most important anomalies in the current quota distribution. It asked the Executive Board to complete its work on the quota review quickly and report back to it in September.

Similarly, ministers could not agree on the amount of an "equity" allocation of SDRs—so called because it would also allocate SDRs to members that have never participated in an allocation. Most Interim Committee members accepted the Managing Director's proposal for an equity allocation of SDR 22.4 billion—which

G-10 Issues Report on Strategy To Promote Financial Stability

On April 29, more than 100 representatives from over fifty countries met to discuss a concerted international strategy to promote financial stability in emerging market economies. This strategy is set out in a report, "Financial Stability in Emerging Market Economies," that was prepared by a working party consisting of representatives of the Group of Ten (G-10) advanced countries and emerging market economies (Argentina, Hong Kong, Indonesia, Korea, Mexico, Poland, Singapore, and Thailand).

The report outlines the key features of robust financial systems, including sound macroeconomic and structural policies; solid legal, accounting, and market infrastructure; effective corporate governance and market discipline; and sound supervisory and regulatory systems. It also delineates roles for the international supervisory groupings, international financial institutions, and market channels for assisting national authorities in strengthening their financial systems.

Participants at the meeting welcomed the report and endorsed the strategy it outlines for promoting robust financial systems. As part of an ongoing process of consultation, they provided comments on a range of issues covered in the report.

The report and the strategy were presented by Mario Draghi, Chairman of the G-10 Deputies and head of the working party that prepared the report, and Pablo Guidotti, Secretary of the Treasury of Argentina.

The report will be reviewed in the next issue of the IMF Survey. *To obtain a copy of the report, please fax the IMF Public Affairs Division: (202) 623-6220.*

would raise all IMF members' cumulative allocations of SDRs to 30 percent of their quotas—but some were not willing to go beyond SDR 20 billion. The equity allocation requires an amendment of the IMF's Articles. The Interim Committee asked the Board to finalize its work in this area as soon as possible and report back to it at its September meeting.

Africa Initiative, Development Assistance

The Development Committee welcomed the initiative of African governments to address the need for improved human capital and institutional capabilities—which are vital for economic and social progress—by fostering local ownership. They stressed the importance of a better enabling environment for private investment. At the same time, ministers emphasized the need for adequate official development assistance, despite donors' budgetary constraints. While further developmental advances depend mainly on domestic efforts, ministers stressed the importance of integrating less-developed countries into the world trading system and their need for adequate external financing.

Group of 24 ministers called attention to the fact that, for the fifth consecutive year, developing countries had led world economic growth. At the same time, they emphasized that rising private capital flows are no substitute for official development assistance for promoting growth and alleviating poverty—particularly since such flows were channeled to only a few developing countries. G-24 ministers also appealed to industrial countries to calibrate their macroeconomic policies to achieve a sustainable growth-oriented stance.

David M. Cheney
Editor, *IMF Survey*

Hyperlinks Established Between DSBB and National Data

On April 24, the IMF announced that users accessing the IMF's Dissemination Standards Bulletin Board (DSBB) on the Internet could move directly to certain national sites to access key economic and financial data. The first electronic links (or hyperlinks) to such Internet sites were established on April 25. Data users can now move quickly between the bulletin board, which describes the statistical practices of country subscribers to the IMF's Special Data Dissemination Standards (SDDS), and the actual data for six country subscribers.

Hyperlinks to national data sites have been established for the following subscribers:

- Canada
- Mexico
- Singapore
- South Africa
- Switzerland
- United Kingdom–Hong Kong

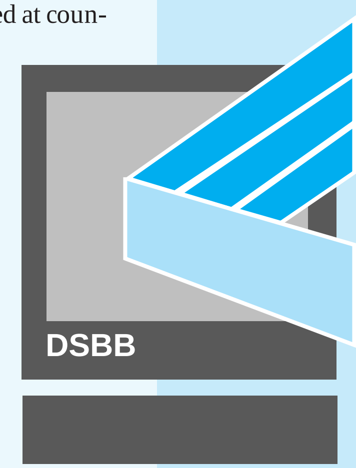
Hyperlinks to national data sites for Finland, Israel, Japan, and Turkey are expected shortly. Hyperlinks to more subscribers' data will follow.

To Access Data

The six subscribers whose national data are hyperlinked to the IMF's DSBB have developed a summary page on the Internet that shows data (for example, GDP growth rates, prices, money, and international reserves) that correspond with the descriptions of their data and data dissemination practices posted on the IMF's DSBB. Data users can access the DSBB at the Internet address http://dsbb.imf.org. They can move from the DSBB to national summary data pages by clicking on "New Access to [subscriber's] data" wherever it appears. Furthermore, from many of these national summary data pages users can move to more detailed data using hyperlinks that the subscriber provides. Users may also move in the other direction, from national pages to the IMF's DSBB.

Background

In April 1995, the IMF's Interim Committee requested a set of standards to guide IMF members in providing to the public comprehensive, timely, accessible, and reliable economic and financial statistics. A similar request was made to the IMF in June 1995 by the Group of Seven Heads of State at their Summit in Halifax. (The SDDS was established in April 1996; see *IMF Survey*, May 20, 1996, page 165). The SDDS is targeted at countries having or seeking access to international capital markets. Countries that voluntarily sign up for the SDDS undertake to make the necessary changes to statistical practices to meet the data coverage, periodicity, and timeliness requirements of the SDDS during a transition period (which ends December 31, 1998) and to follow good practices with respect to public access to the data covered by the standard and to the integrity of the data and its quality. They also undertake to provide information about their data dissemination practices for posting on the IMF's DSBB. As of April 25, there were 42 subscriptions to the SDDS.



The information posted on the DSBB is known as "metadata." In addition to describing SDDS subscribers' data dissemination practices, the DSBB describes steps subscribers are undertaking to improve practices to move toward full observance of the SDDS by the end of the transition period. As of April 25, the metadata for 29 subscribers were available on the IMF's bulletin board.

Camdessus on Globalization, Capital Account, IMF Support for Social Spending

Following are brief excerpts of remarks by IMF Managing Director Michel Camdessus at his opening press conference on April 24.

Notwithstanding the evidence supported by IMF data, a lot of people still believe that globalization is a kind of zero-sum game where a few gain at the expense of others. More precisely, they feel that globalization is a phenomenon that:

• explains the declining share of employment in manufacturing, particularly in industrial countries;

• explains the pressures on wages and employment of low-skilled workers; and

• dramatically limits the autonomy of policymakers at the national level.

As the last IMF *World Economic Outlook* shows, we have made a considerable effort to bring clarity to the analysis of these three questions. It is not that simple, since two or three phenomena are taking place at the same time. There is the globalization of trade and financial flows but also a significant change in technology. In addition, during the 1980s and 1990s, owing to very bad fiscal policies, we had high real interest rates in the world.

Countries with ESAF programs have increased spending on education and health.

How can we disentangle all of these influences? We have tried to do so by advancing clear responses to the three questions. We hope that ministers and governors will take this opportunity to send a positive message to their people, not to say that globalization will solve their problems but at least that it is a challenge offering a lot of opportunities to be seized. Indeed, we would like to tell them that it is time, not for muddling through or hesitation, but for clear and bold choices. It is time to take the high road. Taking the high road in such an environment also means making decisions, not only at national levels, but also at the global level. And the first of these is to use the international institutions better to help countries seize the opportunities of globalization.

As far as the IMF is concerned, there is unanimity in the membership to give us the mandate to promote capital account liberalization, thereby adding a chapter to the uncompleted work of Bretton Woods. Bretton Woods gave us the long-term mandate to bring the world from exchange controls to current account convertibility. It took us 50 years to do this. Indeed, we have not totally completed the work but we are quite advanced in the process. Now we are seeking a mandate to do a similar thing—I hope in a shorter period of time—for capital account transactions.

The second bold thing our members must do to help us—and to help themselves seize the opportunities of globalization—is to have in the IMF a very strong, solidly based institution to reduce the financial risks that globalization can bring about. This means making decisions on members' capital subscriptions and strengthening our ability to address the problems of the poorest countries. You know that globalization has positive aspects; but it also has a dangerous feature, which is that countries not able to integrate themselves in the world economy risk being marginalized. We need to have instruments and means to avoid this marginalization. This means our continued enhanced structural adjustment facility (ESAF) must be financed properly; and it means that the debt initiative for highly indebted poor countries must be used.

Globalization has not been the only focus of our work in recent months. We are involved in an intense effort to help countries with their adjustment efforts. At this moment, 74 out of 181 member countries have, or are negotiating, programs with us. Among these 74 countries, 35 have programs under the ESAF. In general, these programs are producing a lot of good. They reduce inflation, strengthen the budget, and promote growth. But it is frequently said that countries pay tremendous social costs. And there are still people saying that this economic progress is at the expense of the poorest.

Some time ago, I cited figures from a sample of 17 countries to show how social expenditures were doing under IMF-supported programs. We have since broadened the sample to 27 countries with ESAF-supported programs to be sure we cover all categories of countries. Since the start of their programs with us, these 27 countries—more than half of the total—have seen spending on education not stagnate but grow on average by 38 percent in real terms! Health spending has been increased by 50 percent in real terms.

This progress is due to the effort of the governments of these countries, which now understand where their priorities should be. It gives you a different picture of the world from the one so often casually given out. And even if I do not take full credit for the IMF for this progress, it is quite important for our staff here—who are working so intensely on these issues—to see that, during the course of the programs, illiteracy rates in these countries declined by 3 percent a year on average; primary and secondary school enrollment increased year after year; infant mortality declined by 2 percent a year; and life expectancy increased, while access to health care and to safe water improved by 10 percent and over 5 percent a year, respectively.

Joint Press Conference

Maystadt and Camdessus Discuss Capital Account, Exchange Rate Issues, Debt Initiative

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 28.

Maystadt: The Interim Committee's discussion this morning about the world economic outlook concluded on a note of optimism and confidence. Economic and financial conditions are generally favorable for 1997 and the medium term. Fiscal discipline, price stability, and structural reforms remain the key principles at the heart of economic policies in many countries. The Committee reaffirmed the members' willingness to implement the guidelines set out in its Declaration on Partnership for Sustainable Global Growth, approved at our last meeting.

The Committee also welcomed the Executive Board's report on its review of the results of ongoing efforts to strengthen the effectiveness of IMF surveillance over members' policies and, in particular, the Board's decision to permit the release, on a voluntary basis, of press information notices following the conclusion of Article IV consultations. This new publication policy is an important step toward more transparency in IMF operations. I think it will improve market participants' perceptions about a country's prospects and policies and should facilitate a more active public debate and contribute to the formulation and implementation of better policies.

We also discussed the Eleventh General Review of Quotas, but did not make much progress. We could agree on some general guidelines for further work by the Executive Board and that the distribution should be predominantly equiproportional while contributing to a correction of the most important anomalies in the current quota distribution.

On the special onetime allocation of SDRs, we did not succeed in closing the gap. A majority of members can accept the Managing Director's proposal for an allocation of SDR 22.4 billion, thus putting all members on an equal footing by giving each a ratio of SDRs to quotas equivalent to 30 percent. This is a new proposal of the Managing Director, and clearly a majority of members support it. On the other hand, those countries that could not accept the Managing Director's proposal would be willing to accept an allocation of SDR 20 billion. So you can see that while we did not close the gap, it has narrowed considerably to the difference between SDR 20 billion and SDR 22.4 billion. We have an agreement on the text of the amendment to the Articles of Agreement. We know how we will deal with countries with overdue obligations to the IMF. In fact, all the issues are settled except the size of the allocation. While we were not able today to close the gap, we hope it will be possible to do so in the coming months.

However, I am happy that we could make progress and confirm agreement on another issue, that of capital account convertibility. Last September, the Interim Committee asked the Executive Board to continue its analysis of capital flows and their implications and to examine possible changes in the IMF's Articles. Since then, the Executive Board has discussed these issues quite extensively. In light of the Executive Board's report, the Interim Committee today agreed on four main principles:

• The IMF has a central role to play in promoting the orderly liberalization of capital movements.

• The IMF's Articles should be amended to give the IMF an explicit mandate and to extend the IMF's jurisdiction to capital movements.

• This amendment should allow sufficient flexibility to transitional arrangements to ensure that liberalization is accompanied by the necessary structural and macroeconomic reforms.

• Members should be allowed in exceptional circumstances to impose temporary restrictions on both capital inflows and outflows.

We fully agree on these four principles, and we have given a mandate to the Executive Board to continue its work on all the relevant issues, including the precise definition of the scope of the IMF's jurisdiction and its cooperation with other international organizations. We hope that the Board will be able to make specific recommendations on key elements of the amendment by the time of our next meeting in Hong Kong.

Managing Director Camdessus and Interim Committee Chairman Maystadt at the joint press conference.

Finally, the Committee welcomed the action taken by the Executive Board to implement the IMF's participation in the heavily indebted poor countries (HIPC) initiative. The Committee welcomed the recent decision on Uganda and also the endorsement of the guidelines on implementing the initiative for very open economies facing a heavy fiscal burden of external debt.

Camdessus: The only thing I would like to add, because I see it as of immense importance, is that we now have the mandate to add to our Articles of Agreement the "unwritten" chapter in Bretton Woods. Our founding fathers, in the context of capital controls, had, at the end of the war, only the dream of bringing the world to a convertibility of the current account and of taking the necessary time to accomplish that. What we are doing here is to add the chapter dealing with liberalization of capital accounts. This was conceivable only in the context of a globalized, much more integrated world economy. I am happy for the IMF to have received not only this mandate but also recognition of the fact that the IMF is uniquely placed to promote this orderly liberalization of capital movements and to play a central role in helping the membership to progressively achieve this goal.

Exchange rates must continue to reflect fundamentals and follow cyclical developments.

Question: *The Interim Committee agreed that exchange rates should reflect fundamentals and that the re-emergence of large external imbalances should be avoided. Was there any concern within the Committee that these large external imbalances, particularly in Japan, are going to re-emerge, given current exchange rates?*

Camdessus: There were some words of caution about that, the concern being not so much the numbers for one year versus the next year, but more about the possible evolution of exchange rates in the near future. We have at this stage a constellation of exchange rates that has served the world economy well, reducing inflationary pressures in countries at an advanced phase of the cycle while contributing to a redistribution of demand in favor of the countries still at the low phase of the cycle. The orderly reversal of currencies that was suggested in April 1995, and endorsed by the Interim Committee, has done its job.

What is important in the period ahead is to have exchange rates continue to reflect fundamentals and follow cyclical developments toward a strengthening of the recovery in Europe and Japan, while allowing the currencies of the others progressively to adapt to the new phase. The concern is what could occur if exchange rates were not to follow cyclical developments. Markets are telling us that they expect that exchange rates will follow this cyclical movement, and that the risk of a new piling-up of trade surpluses in Japan should not materialize. So, even if words of caution were pronounced, there was not any kind of dramatic concern about the situation. Nevertheless, the wish of the Interim Committee is to see countries follow properly the policy recommendations consistent with their cyclical positions.

Question: *If there are enough losers in a country undergoing globalization, especially a country where there are some political uncertainties, that might affect the life of the government itself, or maybe the government will pull back from globalization. How can that be avoided?*

Camdessus: The prescriptions of the Interim Committee have an objective that is not necessarily that of ensuring the survival of governments regardless of circumstances. Our prescriptions are to help governments to understand what is going on and to put themselves in a position to take the best possible advantage of the positive trends that globalization is creating in the world. Yes, it is true that in the very short term, you have negative effects in the globalization process as well as in all processes of adjustment in individual countries. All adjustments are a process of destructive creation. What is important is to have governments sufficiently conscious of what is taking place in order to concentrate their resources on protecting as much as possible the most vulnerable elements of society against these temporary negative developments without preventing the countries from gaining full advantage from something that is basically a positive-sum game.

Question: *What percentage of the quota increase will be equiproportional? Who will be the main beneficiaries of a correction of the most important anomalies in the current quota system?*

Maystadt: It was agreed that the proposal of the Managing Director—to have two-thirds allocated on an equiproportional basis—could be seen as constituting a predominantly equiproportional distribution. But other formulas could be considered as predominantly equiproportional. If 66 percent is predominantly equiproportional, it is clear that 75 percent is also predominantly equiproportional.

As to which countries have anomalous quotas, there is an agreement in the Executive Board that between five and ten countries should benefit from ad hoc increases to reduce the very large difference between their current quotas and their calculated quotas. Among the candidates are Germany, Japan, Austria, Spain, Italy, Luxembourg, Korea, and Singapore.

Question: *The G-24 were quite cautious about liberalizing capital movements. Are the transitional provisions that you talk about a reflection of their caution?*

Maystadt: This mention of transitional arrangements reflects the concern of some members regarding the pace of liberalization of capital movements. If I can use the formula of one member, we should be bold in the objective and very clear that the complete liberalization of capital movements is a specific purpose of the IMF, but at the same time we should be cautious in the implementation. All members recognize that there could be adverse effects if a country goes too fast to a complete liberalization without the necessary structural and macroeconomic reforms. We know that for some countries it will take more time to reach this common goal, but we all agree that it is necessary to give a clear mandate to the IMF, which is why we asked the Executive Board to prepare the text of an amendment to the Articles.

Camdessus: I would offer only one brief addendum. You should not have the impression that there is any kind of North-South division looming on the horizon. It is very important to know that this concern for a prudent, progressive liberalization is universally acknowledged. All countries see the benefit of going in this direction. All countries know that to liberalize the capital account you need strong macroeconomic fundamentals and strong financial and banking sectors. If you do not have these, you should be moving in that direction.

Question: *Does it make sense that such countries as Mozambique and many other African countries will have to wait until the beginning of the next century to have access to the HIPC initiative while the burden of their debt increases? Do you expect more flexibility to be added to HIPC?*

Camdessus: The membership has established precise rules for the implementation of the HIPC initiative and has pledged relatively limited financing to implement it. It has been extremely difficult to arrive at a consensus on these criteria as well as to agree on a list of countries that could be eligible for HIPC at a certain stage under certain conditions. Now, the rules are there. In particular, a country must have established a track record of good policies under a first ESAF program in the IMF and have started on a second one. Indeed, learning more about the nature of the problem and the issues of debt sustainability through a country-by-country analysis, we have over these last few weeks arrived at an agreement for adding a few elements of flexibility to our criteria. In particular, we have agreed to take into consideration the heavy burden of debt on the fiscal resources of those countries whose external trade is particularly open. This agreement will allow a group of countries— Guyana, Congo, and Côte d'Ivoire—to be potentially eligible. After listening to the debate this afternoon in the Interim Committee, I do not foresee any further significant change in the HIPC criteria in the next few years. ■

Interim Committee Communiqué

Ministers Endorse IMF Capital Role, Study of EMU Implications

Following is the text of the communiqué issued after the April 28 meeting of the Interim Committee of the Board of Governors of the IMF.

1. The Interim Committee held its forty-eighth meeting in Washington on April 28, 1997, under the chairmanship of Philippe Maystadt, Deputy Prime Minister and Minister of Finance and Foreign Trade of Belgium.

2. The Committee welcomed the generally favorable prospects for the expansion of world output and trade. Improved discipline in fiscal and monetary policies in many countries has contributed to subdued or declining inflation and relatively low long-term interest rates. Substantial misalignments among major currency exchange rates have been corrected. The Committee agreed that exchange rates should reflect economic fundamentals and that the re-emergence of large external imbalances should be avoided; excess volatility and significant deviations from fundamentals are undesirable. The Committee recognized the importance of cooperation in exchange markets as appropriate. Widespread structural reforms are enhancing the role of market forces and deepening globalization through trade and financial flows. Yet policy challenges remain.

• Among the advanced economies, countries where growth has been relatively strong face the challenge of sustaining the expansion while preventing an upturn in inflation, and policies should continue to be directed toward these objectives. In Japan, prospects for continued recovery appear more favorable; rigorous implementation of the authorities' deregulation program, as well as appropriate fiscal reforms, is important over the medium term to enhance growth. In continental Europe, the outlook for growth has improved but high structural unemployment points to the urgency of tackling labor market rigidities. The Committee also agreed that continued efforts to meet the convergence criteria and to proceed with comprehensive structural reforms in factor and product markets are needed for both the

Chakravarty Rangarajan, Governor of Reserve Bank of India (left), and Hans Tietmeyer, President and Chairman of the Board, Deutsche Bundesbank.

longer-term prosperity of the participating countries and to ensure a successful EMU [European economic and monetary union] that would contribute to the stability of the international monetary system.

• Robust growth is continuing in many developing countries. Growth in the Asian economies has remained strong for several years. The recent abatement of overheating pressures in many of the emerging market economies, especially in Asia, will help to sustain their expansions, although some large current account deficits need to be reduced. With the sustained implementation of sound policies, growth in the Western Hemisphere and in the Middle East region is expected to strengthen further. The Committee was particularly heartened by the improved growth performance and prospects in Africa. It emphasized, however, that many developing countries have to raise substantially their growth rate of per capita incomes to achieve a significant reduction of poverty, indicating the need to accelerate structural reforms and for the increased support of the international community.

Jean Arthuis, Minister of Economy and Finance of France (left); James A. Judd, Assistant Deputy Minister Department of Finance, Canada; and Gordon Theissen, Governor, Bank of Canada.

• In the transition countries, further progress in the control of inflation and continued advances in structural reform are laying the groundwork for stronger growth. However, sharp contrasts in performance persist among these countries, highlighting the benefits of steadfast commitment to stabilization and structural reforms.

3. The Committee agreed that the increasing globalization of markets is an important force driving world growth and providing opportunities to all countries. While globalization, as with other structural change, may adversely affect some segments of society in the short run, the declining share of manufacturing employment—deindustrialization—in advanced economies is primarily the consequence of technological change rather than globalization. The challenge for policies is to take advantage of the forces of globalization so as to ensure that its benefits are fully realized. The Committee reaffirmed that implementation by all members of the guidelines set out in its Declaration on Partnership for Sustainable Global Growth would be essential to ensure that all share in an increasingly prosperous world economy. It stressed in particular the importance of sound macroeconomic policies, market-oriented reforms, sound banking systems, trade and investment liberalization, and good governance.

4. The Committee welcomed the strengthening of IMF surveillance to meet the new challenges of globalization. It supported the IMF's increasing attention to banking and financial sector problems that could have significant macroeconomic implications. In this context, it emphasized the importance of close collaboration with the World Bank and other international organizations and groups. The Committee welcomed the IMF Executive Board's decision allowing the release, on a voluntary basis, of press information notices following the conclusion of Article IV consultations, which would further improve the transparency of surveillance. It looked forward to a further report on members' policies in the context of surveillance at its next meeting.

5. The Committee was encouraged by the large number of subscriptions—presently numbering 42—to the Special Data Dissemination Standard. It noted the progress achieved on the General Data Dissemination System and welcomed the General System's emphasis on improving data quality across the membership, which would require a broad cooperative effort of the IMF and its members. The Committee looked forward to the establishment of the General System.

6. The Committee welcomed the progress made toward establishing conditions for EMU, the creation of which is one of the most important international monetary developments in the post-Bretton Woods period. The Executive Board will undertake a broad program to assess the implications of EMU for the international monetary system and for the IMF.

7. The Committee emphasized that an open and liberal system of capital movements was beneficial to the world economy. It considered the IMF uniquely placed to promote the orderly liberalization of capital movements and to play a central role in this effort. It therefore agreed that the IMF's Articles should be amended to make the promotion of capital account liberalization a specific purpose of the IMF and to give the IMF appropriate jurisdiction over capital movements; the scope of such jurisdiction would need to be carefully defined, and sufficient flexibility should be allowed through transitional provisions and approval policies. The Committee asked the Executive Board to continue its work in this area, with a view to making specific recommendations on key elements of an amendment by the time of the Committee's next meeting.

8. The Committee commended the Executive Board for its work on the Eleventh General Review of Quotas. It requested the Executive Board to complete its work

on quotas as soon as possible and to report to it in time for the Hong Kong meeting of the Committee. The proposed distribution should be predominantly equiproportional while contributing to a correction of the most important anomalies in the present quota distribution. The Executive Board should also review the quota formulas promptly after the completion of the Eleventh Review of Quotas.

9. The Committee welcomed the adoption of the Executive Board decision on New Arrangements to Borrow and encouraged potential participants that have not yet adhered to the decision to do so as soon as feasible.

10. The Committee welcomed the progress achieved in the Executive Board toward a proposed amendment of the Articles of Agreement to provide for a special onetime allocation of SDRs and requested the Executive Board to finalize its work as soon as possible and to report to the Committee in time for the Hong Kong meeting.

11. The Committee welcomed the actions taken by the Executive Board to implement the IMF's participation in the HIPC [heavily indebted poor countries] initiative through special ESAF [enhanced structural adjustment facility] operations. It noted with satisfaction the Board's decision in principle to provide assistance to Uganda under the HIPC initiative and encouraged all other creditors to take equivalent action as soon as possible. It also welcomed the preliminary consideration by the Board of three other country cases under the initiative and encouraged the Board to implement the initiative in a manner that would ensure a robust exit from the rescheduling process. It stressed the importance of the provision of adequate interim financing by all creditors. The Committee noted the importance of strong adjustment and reform policies, as well as social policies, on the part of the countries benefiting from assistance under this initiative. It called on the IMF, in collaboration with the World Bank, to help these and other developing countries accelerate the process of structural reform. The Committee urged all members to work expeditiously to help secure the resources needed to complete the funding of the IMF's participation in the HIPC initiative as well as the continuation of ESAF.

12. The Committee will meet again in Hong Kong on September 21, 1997.

Development Committee Communiqué

Ministers Approve Debt Relief for Countries with Good Policies, Welcome Africa Initiative

Following is the text of the communiqué issued after the April 29 meeting of the Development Committee.

1. The fifty-fifth meeting of the Development Committee was held in Washington on April 29, 1997, under the chairmanship of Mohamed Kabbaj, Minister of Finance and Foreign Investment of Morocco.

Implementation of Debt Initiative for Heavily Indebted Poor Countries (HIPCs)

2. The Committee welcomed the substantial progress made since its last meeting in implementing the HIPC initiative: the Bank and the Fund Executive Boards have taken a decision on Uganda that would, subject to satisfactory assurances on the participation of other creditors and following a review of Uganda's further progress on adjustment and reform, have an effect on its debt service of a reduction in its multilateral and bilateral debt by about 20 percent or about $700 million in April 1998; there is also a preliminary agreement on the eligibility of three other countries (Bolivia, Burkina Faso, and Côte d'Ivoire); and the necessary analysis for several other countries is well underway.

3. Ministers reaffirmed the importance of implementing the initiative in accordance with the guiding principles and the Program of Action agreed upon by the Committee in 1996. Ministers stressed the importance of adequate interim financing by all creditors. They welcomed the recent Bank and Fund Board decisions on implementing the initiative which demonstrate that, with determination and close collaboration by all partners, governments that show strong commitment to reform and economic and social development can be placed on a track to achieve a sustainable external debt position.

Africa's progress depends on investments in human capital and institutions.

4. Ministers expressed appreciation for the close working relationships between the Bretton Woods institutions, other multilaterals, the Paris Club, and other bilateral creditors. They also expressed appreciation to the governments that have made voluntary contributions to the HIPC Trust Fund and to those that have indicated their readiness to contribute to the IMF ESAF/HIPC Trust; they urged other governments to do so as well.

Multilateral Investment Guarantee Agency (MIGA)

5. Ministers noted the progress made by MIGA's Board and Management in addressing MIGA's resource constraints. The Committee expressed broad support

for MIGA's continued growth in response to expanding demand for its services. As MIGA is rapidly approaching the limits of its financial capacity, ministers urged the MIGA Board, together with other parties involved, to resolve in an expeditious manner the remaining issues on how best to obtain adequate resources, and report to the Committee at its next meeting.

Y. Seyyid Abdulai, Director General, OPEC Fund for International Development (left), and Ibrahim Abdul Karim, Minister of Finance and National Economy, Bahrain.

Partnership for Capacity Building in Africa

6. Africa's future economic and social progress will depend heavily on today's investments in human capital and institutional capabilities. Past efforts in capacity building have not had wide success in fostering effective institutions and sustainable transfer of skills, in part because they did not foster local ownership. Thus, the Committee welcomed the initiative taken by African governments to identify and address this fundamental requirement. The Committee appreciated the high degree of African ownership and commitment to take their own actions on capacity building that are reflected in this effort. Ministers encouraged the World Bank to continue to provide strong support for this African initiative and to help build support from others in the international community as the Partnership's program develops.

Strengthening Support for Development Cooperation

7. Developing countries have made progress in reducing poverty in recent years, but in the poorest countries it remains pervasive and deep. Further advances depend primarily on domestic efforts, but integration into the international trading system and access to adequate external resource flows are also essential. Ministers stressed the central importance of improving the enabling environment for private investment; moreover, the need to ensure adequate access to official development assistance (ODA), notwithstanding donors increasing budgetary pressures and competing demands, is a matter of great concern.

8. To strengthen support for development cooperation and help generate necessary ODA flows, ministers agreed to redouble their efforts to ensure that aid resources are effectively mobilized, delivered, and used. The Committee agreed that improved coordination and strengthened partnerships between developing countries, the private sector, and bilateral and multilateral agencies are essential to improving aid effectiveness.

9. Ministers urged the World Bank to continue to work closely with its partners on realistic and monitorable development goals, adapted to specific country conditions and with full ownership by the countries themselves. In this respect, generally accepted goals such as those focused on poverty reduction, human welfare, and the environment help demonstrate development achievements and lessons learned. Ministers welcomed the recent endorsement by OECD donors of such goals.

10. Ministers agreed that the primary beneficiaries of development aid should be those poor countries committed to economic growth and the reduction of poverty through sound policies and effective use of domestic and external resources. The Committee encouraged IDA [International Development Association] and other multilateral agencies to strengthen further the role of policy performance in the allocation of their resources, bearing in mind factors beyond the control of governments, while continuing to help build the capacity of all countries to improve performance. Bilateral donors were encouraged to move further in this direction as well.

11. Ministers welcomed IMF support for adjustment and reform programs under the ESAF and emphasized the importance of continuing ESAF operations to assist low-income countries.

12. Ministers emphasized the great importance they attach to successful implementation of the IDA-11 agreement. The Committee was encouraged by recently concluded agreements for several other multilateral development bank (MDB) replenishments and reiterated that continued strong support for MDBs by all shareholders, on a fair burden-sharing basis, is essential to preserve their multilateral character and to meet the key challenges of sustainable development.

Strategic Compact

13. The Committee welcomed the World Bank's Strategic Compact, which aims to improve the level and quality of front-line services and strengthen overall development effectiveness by enhancing project quality and by making the Bank more cost effective, participatory, flexible, and responsive to client needs. Members invited the World Bank Board to monitor

closely the implementation of the Strategic Compact and requested periodic reports on progress achieved.

Facilitating Private Involvement in Infrastructure

14. Ministers welcomed the work underway in the World Bank Group to promote private sector investment in infrastructure and they asked the Bank Group to prepare an action program on this subject for the Committee's next meeting.

The Development Committee's next meeting will be held on September 22, 1997 in Hong Kong, China.

Group of Ten Communiqué

Ministers Endorse International Strategy to Strengthen Financial Systems

Following is the press communiqué issued after the April 28 meeting of the finance ministers and central bank governors of the Group of Ten (G-10) countries.

1. The Ministers and Central Bank Governors of the countries of the Group of Ten met in Washington on April 28, under the chairmanship of Gerrit Zalm, Finance Minister of the Netherlands.

2. The Ministers and Governors welcomed the report on the promotion of financial stability in emerging market economies prepared by a working party consisting of representatives of the G-10 and emerging market economies. They endorsed the recommendations in the report for a concerted international strategy to strengthen financial systems. In addition to the conduct of sound macroeconomic policies, the strategy calls for the development of an international consensus on the key elements of sound financial systems; the formulation of sound principles and practices in crucial areas such as bank supervision and securities market oversight by international groupings of national experts; the use of market channels to provide incentives for the adoption of sound supervisory systems, good corporate governance and other key elements of a robust financial system; and the provision of advice and support by the multilateral institutions for the adoption and implementation of the sound principles and practices that have been developed.

3. The Ministers and Governors stressed the importance of the consultative process used to develop the strategy and the desirability of wider endorsement of the strategy by the international community. They welcomed the delineation of roles and responsibilities set out in the report. They welcomed the joint statement by the Managing Director of the IMF and the President of the World Bank on their cooperation in this area. They welcomed the formulation of core principles for effective banking supervision through a consultative process under the auspices of the Basle Committee on Banking Supervision and encouraged further efforts to develop sound principles and practices. They encouraged their deputies, in cooperation with representatives of emerging market economies, to follow closely the development and implementation of the strategy.

4. The Ministers and Governors received and approved a report exploring the policy implications of the growing use of electronic money in the areas of consumer protection, law enforcement, and supervision. They noted that electronic money was still in the early stages of development, but that electronic money schemes could bring important benefits. In the further development of electronic money, consumers, providers, and authorities may wish to give attention to the areas of transparency, financial integrity, technical security, and vulnerability to criminal activity. Ministers and Governors welcomed the efforts of existing bodies considering the implications of electronic money. They agreed that it had been useful to bring together the perspectives of central banks, finance ministers, and law enforcement authorities and that a similar approach could be useful in the future if circumstances warrant. They saw no need at this time to establish new formal international coordinating mechanisms specifically addressing electronic money developments.

Henk J. Brouwer, Treasurer-General, Netherlands Ministry of Finance (left); and Gerrit Zalm, Chair of G-10.

5. The Ministers and Governors welcomed the recent discussions of capital account liberalization by the IMF Executive Board and the G-10 Deputies. They affirmed that the liberalization of capital account transactions offers substantial economic benefits and should be supported by overall economic and structural policies fostering macroeconomic equilibrium and financial sector strength. They agreed that the IMF should have an important role in promoting capital account liberalization and primary responsibility among the international institutions for matters related to the balance of payments. They are of the view that the Articles of the IMF should be amended to reflect this and look forward to early progress on this issue.

Group of 24 Communiqué

G-24 Calls for Strong IMF Leadership Post-EMU, Urges Fast Action on Debt Initiative

Following is the text of the press communiqué issued after the meeting of the Ministers of the Intergovernmental Group of 24 (G-24) on International Monetary Affairs, on April 27.

World Economic Outlook And Globalization

1. Ministers noted that the world economy continues to grow at a steady pace with low inflation. For the fifth year in a row, the developing countries have led in the contributions to world economic growth. While overall prospects appear positive, the current improvement in sub-Saharan Africa must be viewed with caution, in the light of the projected decline in nonfuel commodity prices, shrinking official development assistance (ODA), the relatively low level of foreign direct investment, and the debt overhang. Among the advanced economies, the United States and the United Kingdom continue to perform strongly, although the risk of inflationary pressures has led to pre-emptive monetary tightening; this, however, should not be pushed to the point at which it will lead to higher international interest rates that constrain investment and growth. The simultaneous pursuit of fiscal consolidation in the run-up to economic and monetary union (EMU) in a number of European countries and the withdrawal of fiscal stimulus in Japan are placing at risk the growth momentum in large parts of the industrial world, with significant spillover effects on developing country exports and growth. Ministers, therefore, urged these countries to calibrate their macroeconomic policies toward a sustainable growth-oriented stance.

Lal Jayawardena, Second Vice-Chair of G-24 Deputies (left); William Larralde, Chair of G-24 Deputies; and Antonio Casas González, Chair of G-24.

2. Ministers recognized that globalization brings both opportunities and risks; presently, it appears that these are unevenly distributed because of imperfections in factor and product markets. A more equitable distribution of benefits and mitigation of risks require careful management of public policies and coordination of national policies dealing with markets, as well as stronger international support for improvements in infrastructure and human resources in developing countries.

3. The consequences of introducing the single currency as a result of EMU are bound to be far-reaching for the international monetary system. There is therefore an urgent need for the IMF to exercise leadership to ensure that the transition to a tripolar currency system proceeds with much closer international coordination to minimize instability in the exchange and capital markets and to enhance the prospects for global prosperity. There are major implications of EMU for IMF surveillance, and it is important to ensure that the current undesirable asymmetries in the application of surveillance are not further intensified by the advent of EMU.

HIPC Initiative and ESAF

4. Ministers acknowledged the progress made in establishing the HIPC [highly indebted poor countries] initiative and urged that its application be expedited. While recognizing the broadening of the eligibility criteria, they emphasized that the terms of the initiative should be made more flexible to enable more of the indebted countries to reach debt sustainability as early as possible. Moreover, the time frames involved in getting countries to the decision and completion points need to be shortened and conditionality made more realistic, particularly for those that have already established strong performance track records, as prolonged delays in dealing with the debt overhang will undermine the effectiveness of the initiative, endanger the sustainability of adjustment efforts, and erode domestic political support. Ministers underscored the need to ensure the maintenance of adequate concessional resources to the HIPC beneficiary countries. They also called for equitable burden-sharing arrangements among creditors that take into consideration the financial integrity of the multilateral financial institutions.

5. Ministers called for an early agreement on the financing of the interim ESAF [enhanced structural adjustment facility] and the special ESAF operations under the HIPC initiative. They noted that bilateral commitments to date remain inadequate, and they urged bilateral contributors to provide enough financial resources in the context of equitable burden sharing among all IMF members, in order to remove pressures that limit the eligibility for, and scope of, debt relief. Ministers considered the sale of a portion of the IMF's gold holdings as a valuable supplement to bilateral contributions.

Capital Account Liberalization

6. Ministers welcomed the recent work undertaken by the IMF in the area of capital account liberalization and recognized the benefits that accrue from liberalizing capital account transactions. They recognized that, among international organizations, the IMF should play the leading role in promoting such liberalization, while ensuring adequate coordination with multilateral and regional integration arrangements. They underscored the importance of reaching consensus on a wide variety of issues prior to the consideration of a possible amendment of the Articles of Agreement. These include, among others, a clear and workable definition of capital account transactions to be covered under such an amendment; the advantages of permanent price-based controls; the consideration of restrictions introduced for prudential reasons; the need for flexibility to reimpose restrictions under specific circumstances; and the confidence that IMF assistance would be available to members facing volatile capital flows. Furthermore, Ministers recalled that several conditions need to be in place to ensure the success of liberalization, including a sustainable macroeconomic framework, well-capitalized banking institutions, and clearly defined legal and institutional arrangements.

Financial Sector Issues

7. Ministers noted that, in an environment of globalized financial markets, it is becoming increasingly important to promote and maintain sound banking systems. They urged multilateral institutions to provide adequate technical assistance to help members to strengthen regulatory and supervisory systems and to enhance the transparency of financial markets, as well as to provide financial support to assist in the restructuring of financial sectors. Ministers recognized the efforts being made by the Basle Committee on Banking Supervision and the IMF on the development of appropriate guidelines and standards. They stressed that the developing countries should participate fully in the deliberations and decisions on international supervisory issues.

Governance

8. Ministers noted that the principles of good governance of nations include transparency, accountability, and the rule of law. They stressed that the intergovernmental financial institutions, in following these principles in their own operations, should adhere strictly to the mandates embodied in their respective Articles of Agreement. In addition, they called for the fuller participation of developing countries in the decision-making process of the institutions, as well as in their management and staffing patterns.

Azizali Mohammed, outgoing Chair of G-24 Deputies (left); Sartaj Aziz, outgoing Chair of G-24; and Carlos Fortin, Deputy Secretary-General, UNCTAD.

Resource Flows to Developing Countries

9. Ministers stressed that, although flows of private resources to less developed countries are expanding, they continue to be channeled to only a few developing countries. Furthermore, ODA [official development assistance] is showing a disturbing downward trend, and 1996 saw the lowest level of ODA in over a decade. Stressing the critical role of such assistance for the poorest countries, they emphasized that private capital flows are no substitute for official flows for facilitating growth and alleviating poverty in these countries. The absence of adequate ODA flows would inhibit recipient countries from contributing to global prosperity and would exacerbate migratory pressures on countries with better prospects. Ministers reiterated their deep concern that IDA-11 donor contributions are not adequate to support even current levels of lending, and urged the Development Committee to work toward modalities that provide for adequate long-term financing for IDA.

SDRs

10. Ministers welcomed the agreement reached on the draft outline of the amendment on the special SDR allocation, which safeguards the principles of

separation of the General and SDR Departments, the SDR as a reserve asset, and the provisions regarding unconditional SDR allocations to all members on the basis of a long-term global need. Ministers urged an early agreement on the Managing Director's current proposal for a special allocation of a minimum of SDR 22.4 billion.

IMF's Financial Resources

11. Ministers urged the IMF to expedite efforts to reach agreement on the IMF's Eleventh General Review of Quotas, leading to a substantial increase in quotas, as a major step in strengthening the increasingly important role that the IMF must play within the international monetary system. Ministers were concerned about the relative decline in the quota share of developing countries, and they underlined the importance of maintaining the existing balance in the representation of members and regions in the Executive Board. They stressed that the distribution of the Eleventh Quota increase should be predominantly equiproportional. Ministers noted that a review of the number of basic votes was long overdue.

Ministers regretted the relative decline in quota share of developing countries.

12. Ministers emphasized that, in view of the large accumulation of reserves and precautionary balances in the IMF, the net income target should be reduced so as to bring down the rate of charges.

General Data Dissemination System

13. Ministers recognized the efforts being made to reach agreement on the General Data Dissemination System (GDDS), noting the pragmatic and flexible elements of the system whereby countries can assume the commitment to participate voluntarily. Ministers emphasized the need for developing countries to receive adequate and timely technical assistance to facilitate their early participation in the GDDS.

Technical Assistance for Capacity Building in Africa

14. Ministers welcomed the progress made in the Partnership for Capacity Building in Africa initiative and endorsed the main recommendations made by the African Governors, in particular the need to set up a Trust Fund for Capacity Building and to mainstream capacity building within the World Bank's operational procedures. Ministers urged the Bank to continue its supportive role and coordinating efforts among donors in implementing the proposed action plan.

Bretton Woods Institutions and WTO Relations

15. In welcoming the recent cooperation agreements between the Bretton Woods institutions and the World Trade Organization (WTO), Ministers stressed that this cooperation should further the process of integrating developing countries into the global economy. Ministers called for an early implementation of market access measures for developing country exports, strengthened WTO technical assistance programs, and the full implementation of the Marrakesh decisions. They also stressed that application of unilateral trade restrictions on political and environmental grounds runs counter to the WTO framework.

Multilateral Investment Guarantee Agency (MIGA)

16. Ministers were concerned about the slow progress in finding a long-term solution to the resource constraints of MIGA and urged the international community to give urgent attention to this critical issue in view of its constraining impact on beneficiary countries.

Strategic Compact

17. Ministers welcomed the adoption of the Strategic Compact for the World Bank. While recognizing the need for efficiency and cost-effectiveness, they welcomed the compact's undertaking to increase the Bank's front-line services. They called for the continuation and enhancement of nonlending services to developing countries without the imposition of additional charges. Moreover, care must be taken to ensure that the Bank's borrowers are not adversely affected by an increase in interest margins or charges. ■

Selected IMF Rates

Week Beginning	SDR Interest Rate	Rate of Remuneration	Rate of Charge
April 21	4.05	4.05	4.43
April 28	4.09	4.09	4.47
May 5	4.06	4.06	4.45

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 (109.4 percent until April 30; 109.6 percent, effective May 1, 1997) 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

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From the Executive Board

Following are excerpts of recent IMF press releases. The full texts are available on the IMF's web site (http://www.imf.org) under "news" or on request (fax only, please) from the IMF's Public Affairs Division (fax: (202) 623-6278).

Guyana: ESAF

The IMF approved the third annual loan under the enhanced structural adjustment facility (ESAF), in an amount equivalent to SDR 17.9 million (about $24 million), to support Guyana's economic program in 1997. The loan is available in two semiannual installments, the first of which will be available on April 30, 1997.

Guyana: Selected Economic Indicators

	1995	1996	1997[1]	1998[1]	1999[1]
			(percent change)		
Real GDP	5.0	7.9	7.0	5.2	5.2
Consumer prices (end of period)	8.1	4.5	4.0	3.7	2.9
			(percent change)		
Public sector overall balance (cash basis and excluding grants)	–4.0	–3.1	–4.4	–0.8	–0.7
External current account balance (excluding official transfers)	–19.1	– 9.2	–11.7	–8.9	–7.4
			(months of imports)		
Gross official reserves	4.6	5.2	4.8	4.9	4.8

[1]Projections.

Data: Guyanese authorities and IMF staff estimates and projections

1997 Program

The key macroeconomic objectives of the 1997 program are to achieve a real GDP growth rate of 7 percent; lower the annual inflation rate to 4 percent by year's end; limit the deterioration of the current account deficit of the balance of payments to about 12 percent of GDP; and maintain the level of gross official international reserves at the equivalent of about five months of imports. To achieve these objectives, fiscal policy will aim to limit the overall public sector deficit to about 4½ percent of GDP.

Structural Reforms

Guyana's prospects for sustainable high growth over the medium term depend crucially on a deepening of structural reforms. The government intends to complete the privatization of companies offered for sale in 1995 and 1996, and five other enterprises will be brought to the point of sale by June 1997. To face a shortage of skilled staff in the civil service, the government intends to recruit qualified staff and to better align wages in stages to those in the private sector, while at the same time taking measures to further streamline and reorganize the civil service to improve efficiency.

Addressing Social Needs

The authorities are keenly aware of the need to maintain appropriate social and environmental policies to support human resource development, the authorities intend to raise enrollment rates in primary education and reinvigorate primary health care through greater awareness campaigns and the availability of essential drugs.

Guyana joined the IMF on September 26, 1966, and its quota is SDR 67.2 million (about $92 million). Its outstanding use of IMF financing currently totals SDR 110.8 million (about $151 million).

Press Release No. 97/17, April 16

Rwanda: Post-Conflict Assistance

The IMF approved a loan for Rwanda equivalent to SDR 8.9 million (about $12 million), under the IMF's emergency post-conflict assistance, to support the government's economic program for 1997.

Since the end of the civil war in July 1994, the efforts of the new government have focused on coping with its aftermath. A large number of internally displaced persons have been resettled, more than 2.5 million refugees have returned from neighboring countries, and considerable progress has been made in repairing the social and economic infrastructure and in rebuilding key economic institutions.

A technical assistance program coordinated by the IMF has been key in enabling the National Bank of Rwanda to resume basic central banking functions. The program has also contributed toward a strengthening of budgeting and revenue administration and resumed collection of financial and economic statistics. Moreover, donor-assisted efforts have resulted in the restoration of civilian administrative authority at the central and local government levels.

Under the IMF staff-monitored program in 1996, the macroeconomic situation improved, with real GDP rising by an estimated 13 percent, inflation falling to 9 percent, and

Rwanda: Selected Economic Indicators

	1993	1994	1995	1996	1997[1]
			(percent change)		
Real GDP	–6.8	–49.0	24.6	13.3	12.7
Consumer prices (average)	8.6	64.0	22.0	8.9	7.0
			(percent change)		
Primary fiscal balance	–6.2	–5.3	–3.4	–2.7	–0.9
External current account balance (excluding grants)	–15.0	–53.3	–21.8	–14.3	–18.6
			(months of imports)		
Gross international reserves	1.6	1.3	5.0	5.1	4.4

[1]Projection.

Data: Rwandese authorities and IMF staff estimates and projections gross official international reserves increasing to the year-end equivalent of five months of imports. Following a decline of 49 percent in 1994 and a rebound of nearly 25 percent in 1995, real GDP expanded by over 13 percent in 1996, reflecting a continuing recovery in food production, commercial services, and some manufacturing activities.

Medium-Term Strategy and 1997 Program

The government's 1997 program covers a transitional phase leading toward the possible adoption of a program that could be supported by loans under the enhanced structural adjustment facility (ESAF). The authorities' medium-term strategy seeks to promote economic and social reintegration of over two million former refugees, foster economic and financial recovery, and pave the way for sustained growth and development. For 1997, it envisages a real GDP growth rate of 12.7 percent, an inflation rate of 7 percent, and a level of gross international reserves equivalent to about four months of imports.

A key element in the reform efforts for 1997 will be fiscal consolidation through a reduction in the primary current budgetary deficit from 2.7 percent of GDP in 1996 to 0.9 percent in 1997. Budgetary revenue is projected to increase by about 26 percent to the equivalent of 10.3 percent of GDP, while expenditure will be allowed to increase by only 7.7 percent, implying a decline, in relation to GDP, from an estimated 14 percent in 1996 to 12.7 percent in 1997.

Approximately 70 percent of the expansion in revenue will derive from a broadening in the tax base. The government will take steps to contain budgetary outlays and to address problems in the areas where expenditure overruns were experienced in 1996. The relative share for military expenditure will decline in 1997, while that for essential social services will increase.

Structural Reforms

During 1997, the Rwandese authorities will put emphasis on civil service reform to increase the effectiveness of public administration; the elaboration of a comprehensive strategy and detailed implementation plan for the demobilization of soldiers; the reform or liquidation of several public enterprises and the privatization of the management of the electric, water, and telecommunications companies; and the elaboration of strategies for developing the health, education, and agricultural sectors.

Addressing Social Needs

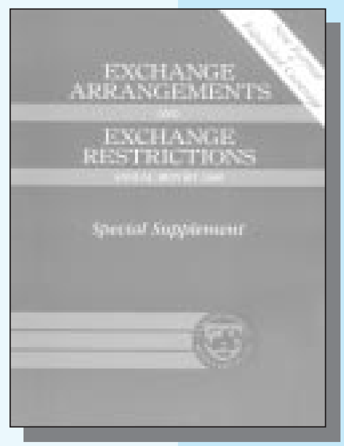
The government has worked closely with the World Bank and other agencies of the United Nations system in develop-

IMF Issues Supplement to *AREAER*

The IMF recently issued a *Special Supplement* to its *1996 Annual Report on Exchange Arrangements and Exchange Restrictions (AREAER)*, presenting information for 52 countries in a new tabular format with expanded coverage of the regulatory framework for capital transactions. The added information on capital accounts reflects the IMF's increasing involvement in capital account issues, in light of the increasing globalization of capital markets.

The *AREAER* has traditionally focused on controls for current international transactions and has been published by the IMF since 1950. It provides information on IMF member countries' exchange arrangements and exchange controls. The *AREAER* draws on information available to the IMF from a number of sources, including that provided in the course of official visits to member countries. It is prepared in close consultation with national authorities.

Given its increased attention to capital account issues, the IMF has been expanding the information it publishes on the regulatory regimes governing capital movements. In December 1995, the IMF circulated a questionnaire on the regulatory framework for capital movements to a pilot group of 31 countries; it also collected information from member countries of the Organization for Economic Cooperation and Development (OECD), which provide this information under the OECD Code of Liberalization of Capital Movements. With this information, the IMF has set up a new database covering the information contained in the *AREAER* and the expanded information on capital transactions. The new database adopts a standardized approach with the intention of enhancing transparency and the uniformity of treatment of information among countries. This standardized approach is reflected in the new tabular format adopted in the *Special Supplement*.



The 52 countries covered in the *Special Supplement* were selected because of the ready availability of expanded information on these countries' regulatory framework for capital movements. They include countries that participated in the pilot project and member countries of the OECD. The information for all countries will be presented using the new tabular format in the 1997 *AREAER*, which will be published in August 1997.

The *Special Supplement* to the IMF's 1996 *Annual Report on Exchange Arrangements and Exchange Restrictions* will be sent to all subscribers to the 1996 edition. Copies of the *AREAER*, which is coordinated by the Exchange Regime and Market Operations Division of the Monetary and Exchange Affairs Department, are available for $76.00 from Publication Services, Box XS700, IMF, Washington, DC 20431 U.S.A. Telephone: (202) 623-7430; fax: (202) 623-7201; Internet: publications@imf.org.

ing an action program to support the reintegration of returning refugees. In this regard, a capital expenditure program, estimated at about $163 million, has been identified and will be implemented as part of a public investment program totaling about $210 million.

Rwanda joined the IMF on September 30, 1963, and its quota is SDR 59.5 million (about $81 million). Rwanda's outstanding use of IMF credit currently totals SDR 17 million (about $23 million).

Press Release No. 97/19, April 22

The IMF's Publication Policy

The IMF has traditionally disseminated a wealth of information on its policy and research activities and on the economic situation of members through periodic newsletters and journals such as the *IMF Survey* and *Staff Papers*; series such as the Occasional Papers, Papers on Policy Analysis and Assessment, and Working Papers; statistical publications such as *International Financial Statistics*; regular press releases on IMF programs and major initiatives; and publication of its *Annual Report*. It has also published twice a year its assessment of the condition of the world economy in the *World Economic Outlook*. Recently, access by the public to this and other general information has been enhanced by the opening of an Internet web site (http://www.imf.org). This also provides facilities for searching and ordering IMF publications.

IMF policy on releasing surveillance documents has evolved toward greater openness.

In contrast, the IMF has always applied strict confidentiality to Article IV consultations and other reports submitted by the staff to the Executive Board. In addition to the need to protect confidential information provided to the IMF by members, a key reason for caution has been the need to ensure that the frankness of discussions between national authorities and IMF staff and management is not compromised since it is essential for effective surveillance. At the same time, in recognition of the benefits of greater transparency in economic policymaking and of the IMF's unique role as provider of economic analysis in member countries, the policy on release of surveillance-related documents has evolved toward greater provision of information:

• From the early 1950s, standing arrangements have been in place providing reports to international organizations with interests and responsibilities closely related to those of the IMF. In 1990, the criteria were broadened to allow routine distribution of Article IV reports to a greater number of international agencies based on principles of commonality of interest, reciprocity, and assurances of confidentiality. Beginning in 1993, technical assistance reports have also been transmitted to these agencies.

• Since 1977, some background papers have been released to private creditors. In 1985, under the enhanced surveillance procedure, this was broadened to include selected staff reports.

• Beginning in 1994, the IMF's *Annual Report* has included detailed information on the conclusions of Article IV consultations with a sizable cross-section of the membership.

• Since 1994, most background documents to Article IV consultation reports have been made public.

Building on these steps, on April 15, 1997, the Executive Board decided to allow the dissemination of press information notices (see below)—consisting of background information on a country and the Executive Board's assessment of a country's policies and performance. The release of the press information notices will be voluntary, with the final decision lying with the relevant member; the notice will be released as soon as possible following the Executive Board meeting. ■

Robert Kahn and Dominique Desruelle
IMF Policy Development and Review Department

Photo Credits: Denio Zara and Padraic Hughes for the IMF.

IMF to Issue Press Information Notices Following Article IV Consultations

Following is the text of press release No. 97/21, issued on April 25.

The IMF's Executive Board has agreed to the issuance of Press Information Notices on a voluntary basis, following the conclusion of Article IV consultations, for member countries seeking to make known the views of the IMF to the public. This action is intended to strengthen IMF surveillance over the economic policies of member countries by increasing the transparency of the IMF's assessment of these policies while preserving the integrity and confidentiality of the Article IV consultation process.

A Press Information Notice will be brief (3–4 pages) and will have two sections:

• a background section with factual information on the member country's economy, which will include a table of economic indicators; and

• the IMF's assessment of the member country's economic prospects and policies, as reflected in the IMF Executive Board's discussion of the Article IV review of the member country's circumstances.

The Press Information Notice will normally be released shortly after the Executive Board meeting.

Economic Prospects Good; Globalization Offers Opportunities, Poses Challenges

Worldwide economic growth took off in 1996, according to the May 1997 *World Economic Outlook*—the IMF's biannual survey of economic developments, policies, and prospects among its member countries. Moreover, economic and financial conditions favor a continuation of the global expansion in 1997 and into the medium term. Few signs of the tensions and imbalances that foreshadow downturns in business cycles are evident; global inflation remains subdued, with commitments to price stability stronger than at any time in the past 30 years; fiscal balances are being decisively reduced in many countries; and exchange rates among major currencies are consistent with broader policy objectives.

World output growth is expected to rise to about 4½ percent, in 1997, from 4 percent in 1996, and to remain at this rate in 1998, reflecting expansion in advanced, developing, and transition economies. Inflation remained subdued during 1996 in the advanced economies—at 2.4 percent—and declined further in the developing and transition economies. These positive trends are expected to continue in 1997 and 1998 (see chart, page 152).

Yet, the road to the promised land of global prosperity for all is neither straight, wide, nor unobstructed, cautions the *World Economic Outlook*. A number of roadblocks and hidden faults could jeopardize the prospects:

• *uneven performance*. The overall favorable statistics mask contrasts in economic performance across countries and regions that have grown starker in recent years.

• *unemployment*. High unemployment and weak growth could make it difficult for European Union (EU) members to meet the fiscal deficit targets specified for membership in European economic and monetary union (EMU), affect expectations about the likelihood of EMU going ahead on time, and lead to turbulence in financial markets.

• *stock markets*. Strong equity prices in the United States and other countries earlier in the year reflected investors' positive assessment of the business outlook, but there is a risk of a substantial correction, if inflationary pressures re-emerge and interest rates rise.

• *capital flows*. The global availability and cost of these capital flows and their cost are vulnerable to higher interest rates and to developments adversely affecting systemically important capital-importing countries.

• *banking systems*. Fragile banking systems are a source of concern in many countries. In developing and transition economies, excessive credit expansion has delayed restructuring, and inadequate prudential supervision are retarding their integration into the world financial system.

Structural Reform Is Vital for Advanced Economies

Growth in advanced economies is expected to strengthen to almost 3 percent in 1997 and to remain at that rate in 1998, reflecting widespread recovery. After growing by 2½ percent in 1996, the U.S. economy is expected to increase further by 3 percent in 1997. The recovery in Japan is expected to continue at a moderate pace in 1997, and the United Kingdom's solid upswing, now in its fifth year, is expected to continue in 1997.

Although growth in Europe is expected to improve to 2½ percent in 1997, this rate will be insufficient to make substantial inroads into the prevailing record high unemployment. The greatest need for policy action to strengthen Europe's economic performance is in structural reform. Indeed, critical for the success of EMU—and for the dynamism of the European economies—is an improvement in the functioning of their labor markets.

> ***Critical for EMU's success is an improved functioning of Europe's labor markets.***

Fiscal consolidation is another policy priority in many advanced economies. Despite welcome progress, fiscal imbalances remain excessive, with the prospective aging of populations and the attendant pressures on health and pension outlays adding to the urgency of fiscal reforms.

Developing Countries Show Divergent Growth Patterns

In the developing countries as a group, growth picked up to 6½ percent in 1996 from 6 percent in 1995, as stronger activity in Africa, Latin America, and the Middle East offset a moderate slowdown in parts of Asia. The abatement of overheating pressures in many of the most successful developing countries has enhanced the chances of their expansions being sustained, and IMF staff project growth for the developing countries as a group to continue at 6½ percent in 1997.

Performance has been satisfactory across several regions. Latin American countries continued to recover from the fallout of the 1995 financial crisis in Mexico. Asian countries that had to deal with the risks of overheating—including Indonesia, Malaysia, and the Philippines—have been generally successful in dampening domestic demand growth. In China, measures to reduce overheating kept GDP growth to just below 10 percent in 1996. Africa's growth performance in 1996 was particularly encouraging: real GDP rose by about 5 percent, the strongest growth in 20 years.

A large part of the developing world, however, continues to lag behind. Many countries—for example, in South Asia and much of the Middle East and Latin America—have seen only modest improvements in living standards. Although many countries have begun to reap the rewards of well-implemented, comprehensive strategies, shortcomings persist in critical areas. These include failure to sustain macroeconomic stability, delays in liberalizing foreign trade, or inadequate progress in deregulating domestic product markets, establishing market-based institutions, and improving governance.

Some of the poorest countries, especially in Africa, have fallen way behind. To help them cope with the enormous challenges they are facing, the international community needs to provide well-targeted assistance and to lessen unsustainable external debt burdens. To this end, the IMF and the World Bank have launched a joint initiative to provide debt-service relief to those heavily indebted poor countries that follow sound policies.

Revised Country Classification

Beginning with the May 1997 issue of the *World Economic Outlook*, several newly industrialized economies in Asia (Hong Kong, Korea, Singapore, and Taiwan Province of China), as well as Israel, are grouped with the economies traditionally known as industrial countries. The reclassification reflects the advanced stage of economic development in these economies and the characteristics they now share with the industrial countries, including comparable per capita income levels, well-developed financial markets, and diversified economic structures with relatively large and rapidly growing service sectors. The *World Economic Outlook* has adopted the label "advanced economies" to define this expanded group, in recognition of the declining share of employment in manufacturing common to all of them.

Contrasts in Performance of Transition Economies

For the economies in transition as a group, the contraction in economic activity seems to have bottomed out in 1996 after six years of deep decline. Also in 1996, average annual inflation fell to 40 percent, its lowest rate since the transition began. Output is expected to expand by 3 percent in 1997—with all but five countries registering growth of 2 percent or higher—and inflation should slow further.

Like the developing countries, the transition economies display sharp contrasts in performance. Those most advanced in the transformation process are reaping the rewards of comprehensive reform and stabilization polices. Most of these countries—including Poland, the Baltic countries, Croatia, the Czech Republic, Hungary, the Slovak Republic, and Slovenia—are experiencing relatively robust economic growth, moderate inflation, and promising progress in reintegrating into the world economic and financial system.

Those less advanced in the transition are struggling with many policy challenges. Several have made good progress, and in Armenia, Azerbaijan, Georgia, Kazakstan, and the Kyrgyz Republic, prospects for falling inflation and continued expansion look good for 1997. Inflation has also fallen in Russia and Ukraine, but a clear turnaround in growth has yet to emerge. All of these countries need to consolidate stabilization strategies, including by reforming tax systems, improving revenue performance, and redefining public expenditure priorities. They also need to progress further with structural reform, especially privatization, establishing market-based institutions, and strengthening fragile banking systems.

Globalization a Source of Growth

Globalization—the increasing economic interdependence of countries worldwide—is a fundamental source of economic growth, according to the *World Economic Outlook*. Its benefits are akin to those of specialization and the widening of markets through trade. Greater division of labor and more efficient allocation of savings spur productivity and raise living standards. Global access to products provides consumers with a wider array of goods at lower prices and permits more savings to be mobilized for investment. International competition hones the quality and efficiency of production.

As the twentieth century draws to a close, it is clear that all countries—advanced, developing, and transitional—will be affected by globalization and that no country will benefit automatically. The *World Economic Outlook* surveys the impact of globalization on these country groups and urges the pursuit of sound policies and structural adjustment to meet the challenges and seize the opportunities, that globalization offers.

Advanced Economies. Globalization has engendered several concerns for the advanced economies: deindustrialization, pressures of low-skilled workers, and limits on policymaking at the national level.

In advanced economies, globalization has come to be associated with rapid deindustrialization. Clearly, the share of manufacturing employment in the advanced economies has fallen sharply—to 18 percent in 1994 from 28 percent in 1970—with employment in services rising almost continuously since 1960. But it is technology not trade that has been the key element in this shift, argues the *World Economic Outlook*. Unequal rates of productivity growth in manufacturing and services closely parallel the rapid increase in agricultural productivity and the consequent steep decline in agricultural employment that marked the earlier part of this century.

Deindustrialization is thus not a symptom of failure, but a natural feature of development and one commonly associated with rising living standards. In the short term, however, this shift entails a major structural adjustment. The dimensions of the change and the importance of ameliorating this transition underscore the importance of promoting labor market flexibility and encouraging the ready transfer of productive resources across sectors. Deregulation and trade liberalization of the service sector must be pursued and investments in education and training increased to exploit emerging technologies. It is also vitally important that remuneration systems be tailored to compensate for skill differences and to encourage human capital accumulation.

A further consequence of changes in technology is that labor demand has shifted away from unskilled labor. But "low wage imports are simply not that important for most advanced economies," the study concludes, "either in terms of quantity or their impact on domestic prices."

Gross capital flows have grown enormously, with the pace notably accelerating over the past decade. But the degree of capital market integration is much more limited than the gross figures suggest, according to the *World Economic Outlook*. Net flows have not increased as explosively as gross flows, and despite rapid growth, foreign direct investment still represents only a small portion of total investment.

Financial integration, while not complete, does exert a major influence on national policymaking in a floating exchange rate regime. Closely linked capital markets have not diminished the effectiveness of monetary policy, but they have altered the transmission mechanism by enhancing the role of the exchange rate. This has potential benefits and risks. Countries generally lack the resources needed to intervene individually in currency markets, and even coordinated intervention may be no match for private sector resources. Coordinated intervention can be effective, however, in signaling the degree of international cooperation and the extent of commitment to sustainable policies.

Broadly, governments in the advanced economies have become increasingly aware that globalization's constraints are best met by adopting sound, transparent, and sustainable macroeconomic policies that reduce the risk of sharp changes in market sentiment, and by international cooperation.

Developing Countries. Globalization is recasting the developing world. The dramatic progress of Hong Kong, Korea, Singapore, and Taiwan Province of China, for example, vividly testifies to the rewards of globalization. But among the developing countries, responses to globalization have diverged sharply.

The striking feature of trade and capital flows over the past decade has been the growing participation of developing economies. Their share of world trade grew to 29 percent in 1995, with a strong increase in the share of manufactured exports (83 percent of total exports in 1983) reflecting growing industrialization. The expansion, diversification, and deepening of developing country trade reflect a widespread abandonment of earlier inward-looking and import-substitution policies.

Possibly even more striking is the increasing integration of the developing economies in the global financial system. Net capital flows increased nearly sixfold between 1983 and 1989. Unlike earlier flows, which primarily reflected bank lending, more recent flows reflect large and growing equity and portfolio investments. But as with trade, these average figures mask sharp contrasts between developing economies. Capital flows have overwhelmingly sought out the emerging market economies of Asia and, to a lesser extent, Latin America.

Most developing economies have seen their living standards, as measured by real per capita incomes, rise substantially over the past thirty years. (Korea's income level, for example, rose tenfold over this period.) But here also the increase has been notably uneven. Only in parts of Asia have income levels approached advanced economy levels. For Latin America, the Middle East, and Africa, income gaps with the advanced economies have widened since the debt crisis of the 1980s. Within the developing country group, countries are increasingly polarized in high- and low-income subgroups.

Broadly, the *World Economic Outlook* analysis finds that income growth in the developing economies has been strongly tied to a constellation of policies that feature open trade positions, stable macroeconomic policies, and relatively small government. No one element alone is sufficient. For countries with sound policies and strong growth, the challenge will be to address infrastructure constraints and shortages of skilled labor. The *World Economic Outlook* also advises gradual and cautious removal of capital controls within broader efforts to strengthen domestic banking systems and develop more flexible exchange rate regimes.

Technology is the key factor in deindustrialization in the advanced economies.

For many low-income developing countries, the immediate task is to fashion higher growth rates while coping with low stocks of human capital, poor resource bases, political instability, and, in many instances, high public debt. The danger in a rapidly evolving world economy is marginalization. The general prescription for growth remains the same: greater trade openness, macroeconomic stability, and a reform

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of government operations (so that limited resources are shifted from excessive defense spending and inefficient state enterprises).

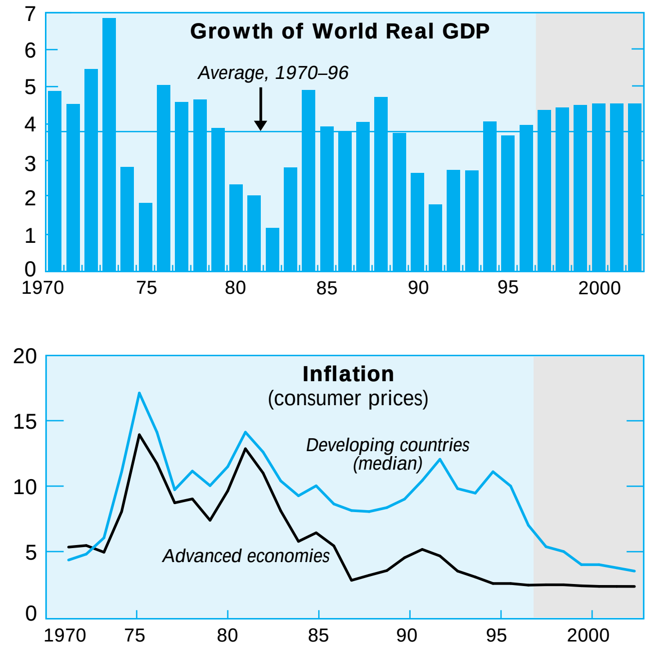
Transition Economies. The reintegration of the transition economies into the global economy remains a work in progress, according to the *World Economic Outlook*. Fifty or more years of central planning left these countries with distorted trade arrangements and inadequate financial systems with little or no recourse to rapidly expanding international capital flows. Transition economies that have pursued early stabilization and aggressive structural adjustment have made substantial progress in reintegrating their economies into the global economy, but much—particularly for those that delayed adjustment—remains to be done.

Trade Liberalization. Orderly currency arrangements, well-defined exchange rate policies, effective payments and banking systems, and properly functioning foreign exchange markets are prerequisites for international financial integration. Central and eastern Europe and the Baltic countries made early progress with currency and payments arrangements, either having or introducing their own currencies and rapidly redirecting their trade to more advanced economies, principally those of Western Europe. Progress in the countries of the former Soviet Union has been slower. A similar pattern emerges in capital account convertibility, with the Baltic countries and the Czech Republic, Hungary, and Poland taking the lead in lifting or easing capital account restrictions.

The pace and extent of trade liberalization have varied greatly among the transition economies—again with the Baltic countries and central European countries taking early steps, and the countries of the former Soviet Union generally moving more slowly.

Financial Integration. The first step for many transition economies seeking greater private sector financing has been to normalize relations with creditors. Agreements with the London and Paris Clubs and other creditors, as well as growing export revenues, have allowed many transition economies to service their outstanding debt and prudently expand their borrowing. A growing number of transition economies have received international credit ratings. Borrowers, once exclusively governments and central banks, now include municipalities and private companies. Foreign direct investment can play an important part in the transformation process, but uncertainties regarding property rights and the legal and fiscal environments continue to hamper foreign direct investment flows.

World Growth and Inflation
(percent a year)



Note: Shaded areas indicate IMF staff projections.

Data: IMF, *World Economic Outlook*, May 1997.

The integration of transition countries into the international financial market is still in its initial stages and private capital inflows remain relatively small. Further advances will depend, among other things, on progress in eliminating capital flight, restoring order in the process of capital outflows, and strengthening the financial sector. The *World Economic Outlook* cautions that the task of building investor confidence and developing an appropriate financial infrastructure will be lengthy.

The record of the transition economies to date clearly equates progress with increasing integration and links both with higher growth and lower inflation. Perseverance with macroeconomic stabilization and structural reforms offers the prospect of high growth rates over the medium term. For the longer-term aspirations of these countries, increasing trade and international financial flows—and thus increasing integration—are essential.

The May 1997 edition of the *World Economic Outlook* will be published on May 15. Copies will be available for $35.00 (academic rate: $24.00) and may be ordered from Publication Services, Box XS700, IMF, Washington, DC 20431 U.S.A. Telephone: (202) 623-7430; fax: (202) 623-7201; Internet: publications @imf.org. The table of contents and the full text of Chapter 1 can be found on the IMF's web site (http://www.imf.org).