

## Strengthening the Architecture of the International Monetary System

Following the Mexican financial crisis of 1994–95, the IMF adopted several initiatives to strengthen the international monetary system and the IMF’s central role in the system. These included more intensive surveillance of financial sectors of member countries, closer monitoring of developments in capital markets, more candid policy discussions with country authorities, and greater emphasis on members’ dissemination of information—both to the IMF and to financial markets. The financial crisis in Asia, however, made clear that to meet fully the challenges posed by a global economy and global financial markets, more far-reaching measures were needed to tackle potential weaknesses in financial systems, prevent the emergence of inappropriate debt profiles, and ensure greater transparency in both public and private sector activity. Successful implementation of these measures would involve not only the commitment of individual countries, but also broad-based cooperative efforts of the entire international community, including the private sector.

In April 1998, the IMF’s Executive Board, reflecting on lessons learned from the Asian crisis and drawing on earlier discussions, identified a series of approaches for strengthening the international monetary system. These approaches were subsequently broadly endorsed by the Interim Committee, which sketched out a comprehensive framework for strengthening the architecture of the monetary system (see Appendix VI).

The Board discussion in April, as well as the Interim Committee communiqué, centered on five aspects of a strengthened international monetary system:

- reinforcing international and domestic financial systems;
- strengthening IMF surveillance;
- promoting more widely available and transparent data on member countries’ economic situation and policies;
- underscoring the central role of the IMF in crisis management; and
- increasing the involvement of the private sector in forestalling or resolving financial crises.

### Strengthening Financial Systems

It is now well recognized that vulnerable and unstable financial systems can severely disrupt macroeconomic performance and that weak financial systems increase vulnerability to economic crises and deepen such crises when they occur. There was thus broad agreement in the Board that the IMF should work actively with other organizations and members to help members design improved banking and financial systems. Directors are also agreed that:

- Members should give priority to strengthening financial sector supervisory and regulatory frameworks and to establishing the independence of central banks. Sound financial systems also require strengthening governance, including in the corporate sector, and improving accounting practices to conform with international standards.
- The international community’s responsibility lay in ensuring that work continued in developing such standards for banking supervision, accounting and disclosure, auditing and valuation of bank assets, and guidelines for effective corporate governance. Increased international cooperation would also be required in areas beyond the establishment of standards, including in the sharing of information among regulators, especially among those with supervisory authority over institutions operating in major financial centers. Regulators also should seek and examine carefully information on flows from offshore centers and off-balance-sheet items, the lack of which could obscure analysis of a country’s exposure and delay the identification of potential balance of payments problems.

Directors recognized that the issues were complex and that both the IMF and the international community would need to develop expertise and devote resources to be able to offer detailed advice in each of the areas. They agreed that the IMF could play an important role, especially in its surveillance activities, by disseminating internationally agreed standards and encouraging members to adopt best practices. The Board noted that it would continue discussions on

the scope of the IMF's work in developing and disseminating international standards. At its April 1998 meeting, the Interim Committee endorsed this approach.

### Strengthening IMF Surveillance

The Board, and subsequently the Interim Committee, reaffirmed the centrality of IMF surveillance in preventing crises. The measures taken after the Mexican financial crisis in 1994–95 were important in helping the IMF adapt its surveillance to the rapidly changing global environment, especially with respect to emerging market economies. At the same time, IMF surveillance needed reinforcing in a number of areas:

- The IMF should intensify its surveillance of financial sector issues and collaborate with other institutions, including the World Bank and the Bank for International Settlements, as well as with the private sector, to offer its members the best possible advice in this regard.
- IMF surveillance should pay more attention to capital account issues. Although the benefits for the world economy of an open and liberal system of capital movements were widely recognized, the sequencing and pace of capital account liberalization had to be monitored carefully. In particular, IMF surveillance should focus on the risks of potential large reversals of capital flows, the rapid accumulation of short-term debt, unhedged exposure to currency fluctuations, and the impact of selective capital account liberalization.
- IMF surveillance should pay greater attention to policy interdependence and the risks of contagion, and to the policies of countries of particular importance to the international monetary system.
- More frequent and systematic exchange of views with market participants was needed so that IMF surveillance was fully cognizant of market perceptions; in turn, this would enable markets to better understand IMF views and analyses. At the same time, such contacts must take into account the confidentiality of the IMF's dialogue with members and ensure even-handed dealings with market participants.
- Effective IMF surveillance depended crucially on the willingness of IMF members to take its advice. This implied, on the part of the IMF, the best analysis possible, as well as concentration on issues of importance to individual member countries.
- The IMF's views must be communicated effectively to members, possibly through a series of incremental steps. A member could be asked to respond to the IMF's concerns within a specified time, so that the member's reaction could be brought expeditiously to the Board's attention. In cases where a member's policies appeared to depart from the advice of IMF staff, the nature of the concerns in question could be

shared with the Board at an early stage, while protecting the confidentiality of the communication with the member. On this issue, the Interim Committee requested the Board "to develop a 'tiered response,' whereby countries believed to be seriously off course in their policies would be given increasingly strong warnings" by the IMF.

### Greater Availability and Transparency of Information

The IMF actively encourages its members to be transparent with respect to information on economic developments and policymaking. Despite progress in members' provision of data on core indicators to the IMF in a continuous and timely manner, both Directors and the Interim Committee saw a need for further improvement, particularly on data timeliness. It was also important to complement core indicators by broadening the IMF's Special Data Dissemination Standard to cover additional financial data. Consideration should also be given to increasing the Special Standard's usefulness, its accessibility to the public and market participants, and publication of members' record of compliance.

Directors and Interim Committee members also supported the steps the IMF had taken to promote greater transparency in economic policymaking. These included encouraging members to release Letters of Intent for their programs, which complemented the longstanding IMF policy of encouraging members to release the Policy Framework Papers that members prepare with IMF and World Bank staff assistance in connection with drawings under the Enhanced Structural Adjustment Facility.

It was noted at the Board's April discussion that the IMF had steadily become more transparent with respect to its own policy advice, most recently through the issuance of a Press (now "Public") Information Notice following the conclusion of a member's Article IV consultation (see Box 3). Directors emphasized that clear, concise, and analytically sound staff reports—as well as frank and comprehensive assessments by the Board—were vital for the effectiveness of the PIN process, and they agreed to return to these issues, including ways to expedite PIN publication. In April 1998, the Interim Committee specifically encouraged more members to release PINs. The Committee also asked the IMF "to continue its efforts to increase dissemination of information on its policy recommendations and encouraged member countries to increase the transparency of their policies."

### IMF's Central Role in Crisis Management

Directors recognized at their April meeting that it was unrealistic to expect that every crisis could be anticipated or prevented. In case of a crisis, the international

community had to be prepared to respond quickly with policy advice, well-integrated technical assistance, and, if necessary, adequate financing. The World Bank and the Asian Development Bank had provided critical technical and financial support for the Asian countries' adjustment efforts; bilateral support had also been important. The Board cited the need for the IMF to coordinate carefully assistance from different sources and ensure, in particular, that such assistance complemented the conditionality of IMF arrangements.

In April 1998, the Interim Committee endorsed the central role of the IMF, in particular its role in supporting the necessary reforms through conditionality. The Committee also welcomed the timely response to the Asian crisis by the international community, including the IMF, and stated that the IMF could not be expected to be able to finance every balance of payments deficit. Its catalytic role was essential for attracting other sources of financing in support of members' adjustment efforts, as was its role, when needed, to coordinate support from other sources.

### **Involving the Private Sector in Preventing and Resolving Crises**

Directors agreed that the world financial community must strengthen its capacity to respond to balance of payments crises in ways that ensure the appropriate involvement of all groups of creditors, including the private sector. Such involvement was required to share the burden equitably with the official sector and to limit moral hazard. Specifically, Directors believed that the means used to resolve one crisis should not encourage imprudent or unsustainable behavior by creditors or debtors, thereby increasing the potential magnitude and frequency of future crises.

In recent crises, many groups of private creditors had sustained large losses. Equities and long-term debt instruments had lost value, and investors in bankrupt enterprises had received no special treatment. A serious challenge had emerged, however, with respect to creditors with short-term claims, where concerns were raised about moral hazard. Such claims were normally highly liquid, which could make it easier for creditors to "bolt for the exit." Members had tried to avoid defaults on such claims because of the potential impact on the stability of their financial systems and their countries' access to international capital markets. Thus, efforts were made to roll over, extend, or restructure the maturing obligations to external creditors. This issue

underscored the importance of preventive measures to discourage excessive reliance on short-term financing. Such measures included appropriate macroeconomic and debt-management policies; nondistortionary tax systems; effective prudential supervision of financial systems; the provision of timely and comprehensive data to financial markets, including on the debt of the corporate sector; and appropriate sequencing of steps to open the capital account.

Directors also cited the importance of strengthening countries' capacity to withstand sudden shifts in market sentiment, in particular, by strengthening their financial systems. Nevertheless, it was recognized that such efforts were not foolproof: circumstances would likely arise in which prevention would not be fully effective and countries would experience balance of payments crises. In most such cases, Directors emphasized, the IMF's approach should be to ensure that the appropriate adjustment programs included the continued involvement of private creditors (see the section on Policy on Sovereign Arrears to Private Creditors in Chapter VIII). At its April 1998 meeting, the Interim Committee endorsed this view, agreeing that ways had to be found to involve private creditors at an early stage. The Committee asked that the Board consider more actively ways to increase private sector involvement in crisis prevention and burden sharing, including devoting efforts to strengthen incentives for creditors and investors to better use information to analyze risks appropriately and avoid excessive risk taking. The Committee suggested the following mechanisms to meet this objective:

- closer contacts with private creditors to better explain IMF-supported arrangements and to develop modes of private sector financing that would help "bail in" private creditors in times of crisis;
- studying further the possibility of introducing provisions in bond contracts for bondholders to be represented, in case of nonpayment, in negotiations on bond contract restructuring;
- extending the IMF's policy of providing financing to members in arrears to include sovereign bonds ("lending into arrears") when appropriate;
- encouraging the adoption of strong bankruptcy laws to improve operation of both domestic and international capital markets; and
- advising members to exercise caution with respect to public guarantees to reduce the risk of a private debt problem turning into a sovereign debt problem.



## Support for Member Countries' Adjustment

In 1997/98, the Executive Board approved the creation of the Supplemental Reserve Facility; reviewed the role of trade liberalization in IMF-supported adjustment programs and IMF policy on members' sovereign arrears to private creditors; discussed IMF monitoring of member country policies after the conclusion of IMF-supported programs; and reviewed the program of group travel by Executive Directors (Box 9). This chapter briefly describes these developments and provides summary information on financial arrangements with IMF member countries—Stand-By Arrangements, Extended Fund Facility Arrangements, and ESAF Arrangements—approved by the Board in 1997/98.

### Supplemental Reserve Facility

In December 1997, the Executive Board established a new short-term lending facility for member countries, the Supplemental Reserve Facility (SRF). The facility was created to deal with the circumstances of a member experiencing exceptional balance of payments problems owing to a large short-term financing need resulting from a sudden and disruptive loss of market confidence reflected in pressure on the capital account and the member's reserves. SRF assistance is available when there is a reasonable expectation that implementation of strong adjustment policies and adequate financing will result, in a short period, in early correction of the balance of payments difficulties. Although resources under IMF facilities are available to all members, the SRF is likely to be used where the magnitude of the outflows may create a risk of contagion that could potentially threaten the international monetary system. In approving a request for the use of IMF resources under the SRF, the IMF takes into account the financing provided by other creditors. To minimize moral hazard, a member using resources under the SRF is encouraged to maintain the participation of creditors—both official and private—until the pressure on the balance of payments ceases.

Financing under the SRF, available in the form of additional resources under a Stand-By or Extended Arrangement, is committed for up to one year and gen-

erally available in two or more tranches. The first tranche is available at the time of approval of the financing, which normally coincides with the approval of the corresponding arrangement.

The IMF determines the amount of financing available under the SRF by taking into account the needs of the member; its capacity to repay, including in particular the strength of its economic program; its outstanding use of IMF credit; its record in using IMF resources in the past and cooperating with the IMF in surveillance; and the IMF's liquidity position.

Countries borrowing under the SRF are expected to repay within 1–1½ years of the date of each disbursement; the Board may, however, extend this repayment period by up to one year, at which point the borrower is obligated to repay. During the first year from the date of approval of financing to a country under the SRF, borrowers pay a surcharge of 300 basis points above the rate of charge on IMF drawings.<sup>11</sup> This rate increases by 50 basis points at the end of the first year and every six months thereafter until the surcharge reaches 500 basis points.

### Trade Liberalization in IMF-Supported Programs

In October 1997, the Board considered a staff report on trade reform in medium-term, IMF-supported adjustment programs.<sup>12</sup> Directors felt that trade liberalization, as a complement to appropriate macroeconomic and other structural policies, should play an increasingly important role in IMF-supported programs designed to foster sustainable high-quality growth and that closer cooperation with the World Bank and the

<sup>11</sup>The credit provided by the IMF is denominated in SDRs, whose value is determined on the basis of a basket of the five leading currencies. The SDR interest rate, which forms the basis for the charges paid by members using IMF credit, is a weighted average of short-term interest rates in the domestic money markets of the five countries whose currencies are included in the valuation basket (typically the rates on short-term government paper, such as treasury bills).

<sup>12</sup>Published as IMF, *Trade Liberalization in IMF-Supported Programs*, World Economic and Financial Surveys (1998).

## Box 9

**Group Travel by Executive Directors**

Travel by a group of Executive Directors to selected countries was initiated to help broaden Directors' understanding of the economic problems and policies in individual member countries, with a view to enhancing their contribution to Board discussion of member country policies. In February 1998, a group of Directors traveled to Cameroon, Côte d'Ivoire, and Mali. Previous group trips were to Egypt, Jordan, and the Republic of Yemen in June 1996; and to Georgia, Hungary, and Ukraine in October 1996.

In reviewing the trial program of group travel by Executive Directors in June 1997, the Board agreed that the number of annual trips should be flexible, but the aim would normally be for two trips a year, each to two or three countries. Many thought the focus should be on program and intensive-surveillance countries, and that participation by a Director (or Directors) from a program country in a group visit would be useful, but they favored maintaining flexibility in the selection process.

World Trade Organization would be important toward achieving that end. There was also a need to promote trade liberalization in nonprogram countries through the IMF's surveillance activities. Trade reform was important in promoting transparency and good governance—reducing the scope for administrative discretion, incentives for lobbying for protection, and opportunities for rent seeking.

Since most countries covered by the staff's review had started out with restrictive trade regimes, trade liberalization had clearly been needed. Directors observed that broader and more rapid liberalization should have been targeted in a significant number of the programs and urged the staff to aim for further liberalization in future programs. Many Directors supported front-loaded liberalization measures as well as the use of prior actions, performance criteria, structural benchmarks, and reviews to monitor implementation of trade reforms, in order to signal their importance in accelerating economic growth. Other Directors cautioned that trade-related conditionality should be applied flexibly and should take into account each country's initial conditions, the degree of political support, and the authorities' own commitment to reforms. Far-reaching trade reform was a long-term process; it demanded a well-specified, comprehensive, and publicly announced program of measures and the avoidance of policy slippages.

Directors underscored the importance of mutually reinforcing trade and fiscal reforms. Trade liberalization did not have to affect the government's fiscal position adversely; the effects would depend on a country's circumstances and the mix of components in the reform package. For trade reform to succeed, Directors remarked that it should be broadly based and should initially replace nontariff barriers with tariffs, while eliminating customs duties exemptions and trade-related subsidies, all of which would tend to strengthen

the government's fiscal position, or at least avoid revenue losses.

**Policy on Sovereign Arrears to Private Creditors**

A key outcome of the Executive Board's February 1998 discussion of IMF policy on sovereign arrears to private creditors was the emphasis given to involving private creditors at an early stage of a crisis, both to ensure adequate burden sharing and to limit moral hazard. The globalization of international capital markets and improved market access had increased the importance of private capital as a source of external financing for many developing countries;

at the same time, such access had made these countries more vulnerable to shifts in market sentiment. This underscored the need for early, forceful adjustment measures on the part of borrowing countries in the face of emerging difficulties; for restraint in both public and private foreign borrowing, particularly at the shorter maturities; and for a cautious approach to the waiver of sovereign immunities, particularly by central banks.

With regard to how the IMF could respond to a liquidity crisis that posed the risk of a member defaulting on international sovereign bonds within the existing legal and institutional frameworks, Directors noted that a balance had to be struck between promoting effective balance of payments adjustments and orderly debtor-creditor relations and limiting moral hazard with respect to both creditor and debtor behavior. Many Directors called for consideration of extending the IMF's policy on providing support by "lending into arrears," that is, continuing to provide financing to countries even when they were behind in their debt payments to some private creditors. They recognized that such lending should be limited and provided only where prompt IMF support was essential for the successful implementation of the member's adjustment program; where negotiations between the member and its private creditors on a restructuring had begun; and where there were firm indications that the sovereign borrower and its private creditors would negotiate in good faith to agree on a debt-restructuring plan. All drawings under an IMF-supported adjustment program with a member with sovereign arrears to private creditors had to be subject to financing reviews to allow the Executive Board to monitor closely unexpected developments—including any litigation—in creditor relations. Some Directors opposed lending into arrears, at least in the absence of further protection. This strategy, they believed, would risk aggressive litigation by individual creditors, thus adversely affecting safeguards on the IMF's resources.

Directors noted that the toleration of arrears to bondholders and other private creditors under IMF-supported adjustment programs may be seen by market participants as lowering the cost of a default to debtors, thereby creating debtor moral hazard. They felt, however, that even under a policy of lending into arrears, the cost to debtors of default would remain substantial, and that IMF conditionality would provide an effective limitation on debtor moral hazard.

Directors considered, on a preliminary basis, three suggestions for possible improvements to existing mechanisms for resolving sovereign liquidity crises. Regarding the first suggestion, modification of the legal provisions of bond contracts, a number of Directors felt that the introduction of sharing provisions, collective representation of bondholders, and qualified majorities to alter the terms of bond contracts could help facilitate the orderly resolution of liquidity crises. Directors noted, however, that there had been no market response to the Group of Ten Deputies' proposals in this area. Therefore, a number of Directors felt that progress was likely to require some kind of official action, possibly in the form of leadership by major industrial country borrowers in introducing such provisions into their own bond offerings. Regarding the second suggestion, a sovereign bankruptcy mechanism, most Directors continued to believe that proposals for establishing a formal international debt-adjustment mechanism were cumbersome and impractical and should not be pursued. Finally, Directors gave preliminary consideration to the possibility of a modification of Article VIII, Section 2(b), of the IMF's Articles of Agreement to allow the IMF to sanction a temporary stay on creditor litigation, thus providing members with protection from litigation in the context of the IMF lending into arrears. Directors believed that this raised complex issues of legal procedures and interpretation that would need to be considered further before moving in this area.

### Postprogram Monitoring

In October 1997, the Board considered a proposal that the IMF continue monitoring member country policies after the conclusion of an IMF-supported adjustment program in cases involving very high access to IMF resources. Directors broadly supported a policy of postprogram monitoring in cases where IMF credit outstanding remained in excess of 300 percent of a member's quota. With respect to the use of postprogram monitoring in cases of access below the 300 percent threshold, the Board asked the staff to study further possible modalities for such monitoring and to suggest draft guidelines for its further consideration.

### Member Countries' Use of IMF Facilities

In 1997/98, the IMF approved nine new Stand-By Arrangements, four new Extended Fund Facility

Arrangements, and eight new arrangements under the Enhanced Structural Adjustment Facility. Arrangements with Korea included disbursements by means of the newly created Supplemental Reserve Facility (described above). There were also four drawings under the policy on emergency postconflict assistance.

- *Stand-By Arrangements* typically cover periods of one to two years and focus both on macroeconomic policies and on structural policy measures. Drawings are generally made in quarterly installments. Repayments of each drawing are made in eight quarterly installments beginning 3¼ years after the drawing.
- *Extended Fund Facility Arrangements* provide support for medium-term programs that generally run for three years (up to four years in exceptional circumstances). Typically, a program states the general objectives for the three-year period and the specific policies for the first year; policies for subsequent years are spelled out in program reviews. Repayments are made over 4½ to 10 years.
- *Enhanced Structural Adjustment Facility Arrangements* provide support, in the form of highly concessional loans, to low-income member countries facing protracted balance of payments problems. Eligible members seeking ESAF resources must develop, with the assistance of the staffs of the IMF and the World Bank, a policy framework paper (PFP) for a three-year adjustment program. The PFP, which is updated annually, describes the authorities' economic objectives, macroeconomic and structural policies during the three-year period, and associated external financing needs and major sources of financing. ESAF loans are disbursed semiannually and repaid in 10 equal semiannual installments, beginning 5½ years and ending 10 years after the date of each disbursement. The interest rate on ESAF loans is 0.5 percent a year.
- *Emergency assistance* to help members overcome balance of payments problems arising from natural disasters or postconflict situations is normally limited to 25 percent of a member's quota and is available only if the member intends to move within a relatively short period of time to a Stand-By or Extended Arrangement, or to an arrangement under the ESAF. Repayments are made in eight quarterly installments beginning 3¼ years after the drawing.

### Albania

*Financial Support.* On November 7, 1997, the IMF approved a credit of SDR 8.8 million under its emergency postconflict assistance.

*Program Objectives.* Limit the decline of real GDP to 8 percent in 1997 and achieve real growth of about 12 percent in 1998; contain the annual inflation rate to a range of 51–54 percent in 1997, and reduce it to 15–20 percent in 1998; and keep gross international

reserves to the equivalent of some 3.5 months' imports through 1998.

*Policies.* Fiscal policy would aim at limiting the domestically financed budget deficit to about 13 percent of GDP in 1997 and to below 10 percent in 1998. This would be accomplished by first restoring and then improving tax collection; raising tax rates, including a significant increase in the value-added tax rate; and exercising expenditure restraint, including through reductions in the public sector workforce. The Bank of Albania would support the inflation reduction effort by maintaining an appropriately tight monetary stance. Under the program, the authorities plan a broad range of structural reforms, including progress toward privatization or liquidation of two of the three state-owned commercial banks; winding up the companies that had operated pyramid schemes; civil service reform; a resumption of enterprise privatization; and creation of a functioning agricultural land market. In the short term, there would be a temporary expansion of the social safety net. To this end, the government would accelerate disbursements of social assistance and would also introduce public works and community service schemes for social assistance beneficiaries who could work.

### Argentina

*Financial Support.* On February 4, 1998, the IMF approved a three-year EFF credit for SDR 2.1 billion. The authorities announced their intention to treat the arrangement as precautionary and to draw only if adverse external circumstances made it necessary.

*Program Objectives.* Consolidate the gains in macroeconomic performance and the structural improvements achieved in recent years through a further strengthening of the fiscal position and the completion of the structural reform agenda. Reduce the overall federal government deficit from the equivalent of 1.4 percent of GDP in 1997 to 1 percent in 1998, and to 0.3 percent by 2000. Strengthen confidence by maintaining a sound financial system under the currency board arrangement and provide for an adequate cushion of liquidity that could compensate for the limited role of the central bank as a lender of last resort in a crisis.

*Policies.* The program would put in place a reform of the labor market by mid-1998. Comprehensive tax reform would seek to improve the efficiency and equity of the tax system and promote the competitiveness of the economy. Reforms in budgetary procedures would aim at promoting transparency and efficiency in public spending and include widening the coverage of the budget, moving to a pluriannual process, preparing annual assessments of the cost of fiscal benefits and incentives, and introducing the use of expenditure efficiency indicators. Initiatives in health care would include a revision of the regulatory framework for private health care providers and the final phases of the

restructuring of the health insurance system for retirees and of health organizations run by unions. The government would continue restructuring social programs better to target budgetary resources toward vulnerable groups. As part of a broader initiative to reform the judiciary system, the program would also include steps to modify judicial procedures to speed up the resolution of tax cases and increase legal security in credit markets.

### Armenia

*Financial Support.* On June 24, 1997, the IMF approved a second annual ESAF loan for SDR 33.8 million.

*Program Objectives.* Achieve a real GDP growth rate of about 6 percent in 1997, bring down inflation to less than 10 percent, and increase gross reserves to the equivalent of 2.8 months of imports.

*Policies.* Fiscal policy would aim at reducing the overall deficit to below 7 percent of GDP in 1997 by increasing revenue through further improvements in tax administration, fully implementing the tax arrears payment scheme, establishing an operational legal framework to enforce revenue collections, and adopting a series of revenue measures aimed at rationalizing and simplifying the structure of several important taxes. The authorities would also further reduce current expenditure to about 18.5 percent of GDP through elimination of open-ended price subsidies to privileged groups, cuts in defense expenditures, and lower interest payments. Monetary policy would be consistent with achieving the program's inflation targets.

The authorities expressed a commitment to accelerating the implementation of structural reforms. In addition to the reforms under way in the banking sector and tax administration, the 1997 program would follow a three-pronged approach toward continued privatization to lay the basis for sustained growth, improvement of financial discipline through enterprise restructuring, and reforms in the energy, health, and education sectors. The authorities decided to take several measures during the program period to improve the targeting of social safety net benefits to alleviate poverty and improve income distribution.

### Azerbaijan

*Financial Support.* On December 22, 1997, the IMF approved a total credit of SDR 48.7 million—with SDR 29.2 million available in two equal semi-annual installments under the second-year ESAF, and SDR 17.5 million under the second year of the EFF.

*Program Objectives.* Speed up the transition to a market economy and develop the country's oil resources without adverse impact on the rest of the economy. Use both macroeconomic and structural policies to dampen the pressures of domestic demand and encourage domestic savings. Use supply-side poli-

cies to remove the obstacles to growth in the non-oil sector inherited from the planning era. Use fiscal policies to reduce the deficit of the general government to less than 1 percent of GDP during the next three years. Use monetary policy to maintain low levels of inflation. For 1998, aim to accelerate growth to 7 percent, while maintaining inflation below 5 percent and limiting the external current account deficit to some 27 percent of GDP, including imports related to development of the oil sector.

*Policies.* High priority has been placed on public sector management reform, bank restructuring and privatization, and an equitable process of enterprise and land privatization. A comprehensive program to overhaul the public sector, based on the appropriate role of the state in a market economy, would be designed and implemented with the objective of eliminating the state's commercial and industrial activities and focusing on regulatory and policymaking functions. It would aim at establishing a modern, efficient, and professional civil service capable of managing public resources, together with a competent and impartial judiciary and legal system that can enforce property rights and contracts. Over 70 percent of state enterprises—by asset value and employment rate—would be transferred to private hands through 2000. The government is committed to substantial reforms in the health sector, in response to deteriorating quality and access problems.

### **Bolivia**

*Financial Support.* On September 10, 1997, the IMF approved a third annual ESAF loan for SDR 33.7 million and an extension of the loan's period through September 1998. For support under the HIPC Initiative, see Chapter IX.

*Program Objectives.* Raise sustainable economic growth and alleviate poverty, while ensuring progress toward lower inflation and a viable balance of payments. The capitalization and privatization program and the pension reform should help achieve these goals, but the reforms will incur additional fiscal costs over the next several years. Thus, design fiscal policy to absorb these costs gradually to ensure that domestic savings continue to increase and to help promote further development of local capital markets. Also, strengthen social programs to reduce poverty further. Reduce inflation to 7 percent and achieve GDP growth of 5 percent.

*Policies.* The combined public sector deficit is expected to widen between 1996 and 1997–98 and then return to its 1996 level by early in the next decade. With respect to structural policies, the government intends to continue with privatization. The government is committed to adopting Basle norms for risk weighting of bank assets from mid-1998 and raising

the minimum ratio for capital-to-risk-weighted assets to 10 percent from 8 percent starting in 1999. A superintendency of pensions would ensure that the new private pension funds can operate effectively as financial intermediaries. To improve governance and public accountability, the government would intensify judicial reform and reforms of public service and customs. It would continue to strengthen the sectoral superintendencies that regulate public utility sectors and introduce a program to improve commercial and property registers. The authorities would continue to implement education reform; implement an integrated national health plan that covers, in particular, mothers, infants, and elderly citizens in needy urban and rural areas; accelerate land titling to strengthen the property rights of small farmers; and increase investment in rural infrastructure.

### **Burkina Faso**

*Financial Support.* On September 8, 1997, the IMF approved a second annual ESAF loan for SDR 13.3 million. For support under the HIPC Initiative, see Chapter IX.

*Program Objectives.* Further increase the ratio of budgetary revenue to GDP and accelerate structural reforms. Achieve a real GDP growth rate above 6 percent, contain inflation at 3 percent, and reduce the external current account deficit to 10.5 percent of GDP. Improve the quality of economic statistics.

*Policies.* Fiscal policy would aim at increasing the primary budgetary surplus to 1.9 percent of GDP in 1997 through a rise in the revenue-to-GDP ratio to 12.9 percent of GDP. The revenue increases would reflect the full-year impact of a September 1996 rise in the value-added tax rate to 18 percent from 15 percent and further efforts to strengthen customs revenues. Budgetary expenditure would be better monitored through computerization of the budgetary cycle. Monetary policy would seek to contain bank credit expansion, in line with the program's inflation objectives.

Structural reform measures would include steps to expedite privatization and a strategy to open public utilities; judicial system reform; and deregulation of rice and sugar sectors, elimination of nontariff barriers to agricultural trade, and restructuring of the cotton sector by reinforcing farmers' cooperatives. To address social needs, the government set quantitative objectives in the education and health sectors to correct past major weaknesses. The enrollment rates in primary schools and for girls would be increased gradually, as would the numbers of health centers.

### **Cameroon**

*Financial Support.* On August 20, 1997, the IMF approved a three-year ESAF loan for SDR 162.1 million.



*Program Objectives.* Place the economy on a sustainable growth path and restore internal and external viability. Rebuild the physical and economic infrastructure with a firm and long-term commitment to structural reforms with a view to unlocking the country's considerable resources. Over the three-year period, aim to achieve real annual GDP growth of at least 5 percent, limiting average annual consumer price inflation to 2 percent and stabilizing the external current account deficit at about 2 percent of GDP.

*Policies.* At the core of the program would be a comprehensive structural reform agenda aimed at further reducing the public sector's burden on the economy, liberalizing the energy and transport sectors, deepening the financial market, and consolidating the gains in external competitiveness. Key policies in support of the government's medium-term strategy would include maintaining external competitiveness through efficiency-enhancing structural reforms; reducing fiscal imbalances through a steady increase in the ratio of non-oil revenue to GDP and firm control over expenditure; and strengthening the efficiency of the tax system by strictly enforcing tax laws, combating fraud and corruption, introducing a value-added tax, rationalizing income taxes, reforming forestry and agricultural taxation, and phasing out export taxes. A new tax regime for the forestry sector and a requirement for sustainable forest management plans before concessions were granted would benefit conservation. Further priorities include increasing public expenditure on social services, especially health and education, and rehabilitating infrastructure; accelerating state enterprise reforms; completing financial sector reform, including insurance companies and the social security system; and improving public sector management and efficiency.

### Cape Verde

*Financial Support.* On February 20, 1998, the IMF approved a 14-month Stand-By Arrangement for SDR 2.1 million. The authorities indicated that they would treat the arrangement as precautionary and would draw on it only if adverse circumstances made it necessary.

*Program Objectives.* Achieve real GDP growth of 4 percent in 1998 and an average inflation rate of 3.5 percent. The external current account balance (excluding transfers) would target a deficit of 15.7 percent of GDP in 1998, and tightening fiscal policy would reduce the overall fiscal deficit to 8.7 percent of GDP in 1998 from an estimated 15 percent in 1997.

*Policies.* The authorities would introduce administrative measures to strengthen budgetary execution. They would also maintain a pegged exchange rate and thus gear monetary policy to balancing the private sector's credit needs against the reserve accumulation targets of the program. The government would liberalize further

the trade regime by replacing the few remaining import quotas with tariffs and then rationalizing and reducing overall tariffs. Objectives in the social area and in poverty alleviation would be achieved through higher growth, lower inflation, and continued budgetary support of efforts to improve primary health and education.

### Chad

*Financial Support.* On April 29, 1998, the IMF approved a third annual ESAF loan for SDR 16.5 million.

*Program Objectives.* Achieve real GDP growth of 6 percent, limit inflation to 3.5 percent, and contain the current account deficit at 17 percent of GDP in 1998.

*Policies.* The government would strengthen the fiscal adjustment effort of previous years. Although the overall budget deficit, on a commitment basis, would be limited to 8.6 percent of GDP, the current budget for 1998 projects a surplus of 0.7 percent, reflecting an increase in revenues of 36 percent, to 9 percent of GDP, to be achieved through more efficient revenue collection, tightened controls on exemptions, and strengthened and computerized operations in the customs directorate. Expenditures would be restructured in favor of health and education, and a comprehensive reform of the civil service would be initiated. The regional monetary authorities would maintain a prudent policy stance, in line with the program objectives for low inflation, while consolidating foreign exchange reserves. Structural reforms would be pursued to enhance the efficiency of the productive sectors of the economy and improve government revenues. Social policies designed to reduce poverty substantially would continue to be implemented.

### Côte d'Ivoire

*Financial Support.* On March 17, 1998, the IMF approved a three-year ESAF credit for SDR 285.8 million. For support under the HIPC Initiative, see Chapter IX.

*Program Objectives.* Under the medium-term adjustment strategy for 1998–2000, achieve real GDP growth of about 6 percent a year, allowing per capita income to rise by more than 2 percent annually; maintain inflation of about 3 percent a year, consistent with the exchange rate peg; and reduce the external current account deficit to 2 percent of GDP by 2000. Bring the fiscal position close to balance by 2000 and achieve a surplus thereafter; adopt structural reforms to promote private sector development and investment; and reduce poverty, especially through well-targeted measures in the education and health sectors.

*Policies.* To consolidate the fiscal situation, the authorities would strengthen revenue performance by improving tax and customs administration, reducing exemptions, and continuing to fight against fraud and

evasion. They would follow a prudent expenditure policy while providing adequately for basic health and education services and infrastructure maintenance. Monetary policy, conducted at the regional level, would be consistent with the fixed exchange rate regime and a further improvement of the CFA franc zone's net foreign asset position.

Regarding structural reforms, trade liberalization would be pursued in the context of regional arrangements, while privatization would be accelerated with the sale of 15 enterprises in 1998. The authorities decided to liberalize fully the marketing of coffee and cocoa, beginning with the liberalization of coffee in October 1998. To reduce poverty, public spending would continue to be redirected in favor of education and health, with a system being established to monitor poverty indicators.

### *Djibouti*

*Financial Support.* On May 21, 1997, the IMF approved a request for the extension of a Stand-By Arrangement for SDR 4.6 million through the end of March 1998 and augmentation of the amount available under it by SDR 2 million. A further extension through the end of June 1998 was approved in March 1998.

*Program Objectives.* Regain control of the fiscal situation and implement structural measures in a number of areas to improve the economy's supply responsiveness and competitiveness.

*Policies.* Policies would include intensified efforts to reduce further current expenditures and improve the quality of the tax system, as well as the overall regulatory framework for economic activities; enhance flexibility in factor inputs and create conditions conducive to a resumption of investment; and create new job opportunities.

### *Estonia*

*Financial Support.* On December 17, 1997, the IMF approved a 15-month Stand-By Arrangement for SDR 16.1 million. The authorities indicated they would treat their arrangement as precautionary and would draw on it only if adverse external circumstances made it necessary.

*Program Objectives.* Achieve an annual growth rate of real GDP of over 5 percent and reduce inflation further to about 8 percent in 1998. To reduce demand pressures, expand the general government surplus to 1.8 percent of GDP. Reduce the current account deficit.

*Policies.* The program would follow a three-pronged approach: implement tighter fiscal policies to restrain domestic demand; adopt monetary measures (within the limited policy options available under the currency board) to reduce the rate of credit expansion and to

raise banking system prudential standards, plus an intensification of financial system surveillance; and accelerate structural reforms to improve productivity and raise private savings. On the fiscal side, tax revenues would be expected to continue to improve through further economic expansion, some new tax measures, and stronger tax administration. At the same time, the ratio of general government expenditures to GDP would decline.

The authorities would reinforce measures to address the growth in domestic credit and improve the soundness of the financial system, such as raising capital adequacy ratios and the level of required bank reserves. Banks' minimum capital requirements would be raised and prudential regulations imposed on a consolidated basis for banks and their nonbank financial subsidiaries. The authorities intend to adopt a more aggressive approach to financial sector surveillance to reduce systemic risks and improve supervision of bank and nonbank financial institutions. They would also implement measures to strengthen securities and capital markets. Other structural reforms would focus on faster implementation of enterprise privatization and land reform, thus would improve the scope for noninflationary growth by minimizing distortions and reducing constraints on potential output.

### *Ghana*

*Financial Support.* On March 23, 1998, the IMF approved a second annual ESAF loan for SDR 82.2 million.

*Program Objectives.* Secure a stable macroeconomic environment that supports private-sector-led economic growth, thereby creating jobs, boosting incomes, and reducing poverty. Achieve annual real GDP growth of 5.6 percent, or 2.5 percent on a per capita basis; reduce annual inflation to 11 percent by the end of 1998, further halving it to 5.5 percent by the end of 1999; and contain the current account deficit at 7.3 percent of GDP in 1998 while maintaining gross official reserves at 2.7 months of imports.

*Policies.* The government would strengthen the fiscal adjustment effort launched in 1997 and increase 1998 tax revenue by about 1 percent of GDP, in part by improving sales tax revenue collections, introducing the value-added tax effective December 1, 1998, and intensifying tax system reforms. Inflation would be brought down through control of the money supply, conditioning any action to lower interest rates on the abatement of inflation expectations. Structural reforms would be pursued to enhance private investment and improve resource allocation; to further deregulate the petroleum and cocoa sectors; to pursue the divestiture program aggressively; to liberalize the financial sector; and to reform the civil service and autonomous government agencies.

## Guinea

*Financial Support.* On April 3, 1998, the IMF approved a second annual ESAF loan for SDR 23.6 million.

*Program Objectives.* Implement tight financial policies and further structural reforms to consolidate the stabilization under way and to create the conditions for sustainable and diversified economic growth. Achieve growth of 5 percent in real terms; reduce inflation to about 3.5 percent; contain the current account deficit at 7.7 percent of GDP (excluding official transfers); and increase gross official reserves to 3.4 months of imports.

*Policies.* Fiscal measures would include pursuing further improvements in tax and customs administration, ensuring compliance with the VAT, and introducing a new, unified real estate tax and a lower VAT threshold for enterprises in the service sector, with the aim of raising total revenues to 11.6 percent of GDP. Allocations to the priority sectors of health, primary education, and rural development and roads would be increased, and sufficient local counterpart funds provided for foreign-financed investment projects. Budget management would be reformed to improve efficiency and transparency, and a new computerized expenditure monitoring system put into operation. Monetary policy would be designed to support the external sector and achieve inflation objectives. Bank supervision would be tightened and prudential regulations enforced more strictly. Structural reforms would include accelerating privatization, public sector restructuring, and judicial sector reform; reinforcing the efficiency of the civil service; extending the cost-reduction program in public enterprises to the mining and energy sectors and preparing a divestiture timetable by the end of June 1998; and improving the legal environment for business activity by creating an arbitration court and preparing reforms to reinforce transparency and efficiency in the judicial system. The authorities would continue to reorient resources toward primary education and to increase nonwage expenditure on health.

## Guinea-Bissau

*Financial Support.* On July 25, 1997, the IMF approved a third annual ESAF loan for SDR 4.7 million and an extension of the period through the end of March 1998. The ESAF Arrangement was augmented by SDR 1.1 million.

*Program Objectives.* Maintain annual economic growth of about 5 percent; lower the average annual rate of inflation to about 6 percent in 1999 from 51 percent in 1996; and reduce the external current account deficit (excluding grants) by about 5 percentage points to 16 percent of GDP by 1999. Maintain the level of investment at 22 percent of GDP, while enhancing its efficiency through a projected rise in gross domestic saving to 4 percent of GDP in 1999.

*Policies.* Fiscal policy would be the key focus of the authorities' economic policy, with a twofold objective of further raising the current primary surplus through an increase in the revenue-GDP ratio and overhauling the tax system. The government would introduce a general sales tax and a major reform of external tariffs, reduce export taxes, and revise excise taxes, particularly on petroleum. On the expenditure side, the program was to focus on containing nonessential outlays and on further streamlining the civil service. A major strengthening of budgetary procedures was to be introduced, with prior authorization of the Ministry of Finance Budget Directorate required for all expenditure commitments. In the monetary field, domestic credit policy would be kept tight to quell inflation. Structural reforms would continue to focus on accelerating public enterprise privatization; increasing efficiency in the energy sector; enhancing the role of the private sector in agriculture, fisheries, and forestry; improving social services; and reforming the civil service.

## Guyana

For support under the HIPC Initiative, see Chapter IX.

## Indonesia

*Financial Support.* On November 5, 1997, the IMF approved a Stand-By Arrangement for SDR 7.3 billion over three years. In approving the request, the IMF used the accelerated procedures established under the Emergency Financing Mechanism. On July 15, 1998, the IMF approved an additional SDR 1 billion.

*Program Objectives and Policies.* For details, see Chapter V.

## Korea

*Financial Support.* On December 4, 1997, the IMF approved a three-year Stand-By Arrangement for SDR 15.5 billion. In approving the request, the IMF used the accelerated procedures established under the Emergency Financing Mechanism. On December 18, the Board concluded its first review of the arrangement and activated the new Supplemental Reserve Facility.

*Program Objectives and Policies.* For details, see Chapter V.

## Latvia

*Financial Support.* On October 10, 1997, the IMF approved an 18-month Stand-By Arrangement for SDR 33 million. The authorities indicated they would treat the arrangement as precautionary and would draw on it only if adverse external circumstances made it necessary.

*Program Objectives.* Attain a real GDP growth of 4 percent for 1997 and 5 percent for 1998; reduce the annual rate of inflation to 9 percent in 1997 and 7 percent in 1998; and narrow the external current account

deficit to 6.1 percent of GDP in 1997 and to 4.9 percent in 1998. Target gross international reserves at the equivalent of about three months of imports for 1997 and 1998. Reduce the general government fiscal deficit to 0.9 percent of GDP in 1997 and 0.5 percent in 1998.

*Policies.* The program emphasized the acceleration of structural reforms, including the completion of enterprise privatization and the strengthening and extension of private property rights, with the aim of establishing Latvia firmly as a market economy, encouraging restructuring, and stimulating saving and domestic and foreign investment. Virtually all remaining state-owned enterprises, including large companies, would be privatized by mid-1998. In this context, steps would be taken to resolve the issue of consumer arrears and to ensure that energy tariffs were set on a cost-recovery basis. Other structural reforms, including land registration and a reduction in the number of business regulations, would also advance under the program. Trade liberalization would continue, and legislation would be submitted to parliament by mid-1998 for a further substantial reduction in agricultural tariffs. Measures to improve tax administration and expenditure productivity, including through civil service reform, would make possible increased expenditures on social services and infrastructure. The government would take steps to improve the efficiency of social spending, including through a reform of the national health insurance system.

### *Mauritania*

*Financial Support.* On July 14, 1997, the IMF approved a third annual ESAF loan for SDR 14.3 million.

*Program Objectives.* Achieve real GDP growth of 4.9 percent in 1997, hold inflation at 5 percent, and limit the external current account deficit (excluding official transfers) to 5.5 percent of GDP. In fiscal policy, achieve an overall government surplus of 4.1 percent of GDP in 1997, reflecting the further rationalization and control of expenditure, and containment of the decline in total revenues in relation to GDP, mainly on account of lower fishing royalties.

*Policies.* Monetary policy under the program would be consistent with the achievement of the program's inflation and balance of payments objectives. The government took a number of actions to reform the legal, judicial, and regulatory framework, including notably accelerating procedures for establishing new enterprises and adopting measures to encourage private sector investment in the mining sector. Legislation was also being prepared to encourage private sector participation, particularly in the transport and utilities sectors. The authorities were committed to observing minimum levels of expenditure on health and education and

were adopting measures to further improve the quality and coverage of services in these areas.

### *Mongolia*

*Financial Support.* On July 30, 1997, the IMF approved a three-year ESAF loan for SDR 33.4 million.

*Program Objectives.* Reduce inflation to single-digit rates, achieve annual real growth of 6 percent, and increase official gross international reserves to the equivalent of over 15 weeks of import cover. Reduce the budget deficit to 6 percent of GDP by 2000 and raise national savings over the medium term. Achieve fiscal adjustment by reducing the size of the public sector and adopting reforms in public administration and taxation.

*Policies.* Monetary policy would be geared to maintaining positive real interest rates on central bank bills and limiting commercial bank access to central bank credit to the refinancing and rediscount facilities. The elimination of import duties and the large up-front cost of bank restructuring—fundamental components of the reform strategy—were projected to cause the budget deficit to rise to 10.5 percent in 1997. The deficit would be reduced significantly, however, in 1998 as the costs of bank restructuring decline and further tax reforms are phased in. Public administration reforms are to be aimed at improving expenditure control and accountability to set the stage for decentralized decision making. The government is committed to reforming education and health to improve the delivery of services and restructuring other aspects of the social welfare system to reduce budgetary costs and improve targeting.

### *Mozambique*

*Financial Support.* On June 23, 1997, the IMF approved a second annual ESAF loan for SDR 25.2 million. For support under the HIPC Initiative, see Chapter IX.

*Program Objectives.* Increase nonenergy GDP by 5 percent in 1997 and total GDP by 6 percent, cut end-of-period inflation to 14 percent in 1997, and increase gross international reserves to the equivalent of about five months of imports of goods and nonfactor services.

*Policies.* The program would envisage a tight monetary policy and maintenance of a floating exchange rate system. The focus of fiscal policy would be on strengthening tax administration, reducing exemptions, and modernizing the direct and indirect tax systems to encourage compliance and remove distortions. The government would continue its program of privatization, with a view to completing it by mid-1999. Another major priority would be the reform and strengthening of public administration. Plans would include greater decentralization of decision making,

increased transparency and accountability in government, and civil service reforms. Mozambique would be committed to expanding the share of the social sectors in total spending and to improving the effectiveness of social expenditure. The 1997/98 program targeted an increase in such spending to reduce poverty and improve the human capital base.

### Nicaragua

*Financial Support.* On March 18, 1998, the IMF approved a three-year ESAF loan for SDR 100.9 million.

*Program Objectives.* Move toward sustainable public finance and external sector positions, carry out structural reform, and promote growth to alleviate poverty and reduce unemployment. Increase public saving by 6 percentage points of GDP and achieve a small surplus in the combined public sector balance (after grants) by 2000. Increase gross reserves—net of central bank paper—to three months of imports, achieve real GDP growth of about 6 percent, and reduce inflation to about 5 percent. Within this medium-term strategy, the 1998 program, supported by the first annual ESAF loan, seeks to increase gross reserves—net of central bank paper—to the equivalent of 1.8 months of imports, achieve a real GDP growth rate of 4.8 percent, and limit inflation to 8.0 percent.

*Policies.* The government would reduce the size of the public sector and increase central government revenues by broadening the tax base, increasing the transparency of the tax system, and eliminating a large number of discretionary VAT and customs exemptions. Central government current expenditures would be frozen and export subsidies eliminated. Monetary policy would be geared to supporting the external sector and inflation objectives. Public sector reforms would continue to improve services and efficiency, and the executive branch would be restructured to reduce the number of government ministries and agencies reporting directly to the president. A comprehensive judicial reform would be prepared, designed to improve legal procedures and enhance enforcement of contracts and property rights. Discriminatory treatment against foreign investors would be eliminated, reform of the state banking sector completed, and public utilities, state oil distribution, and the services of the major ports privatized.

### Niger

*Financial Support.* On July 28, 1997, the IMF approved a second annual ESAF loan for SDR 19.3 million.

*Program Objectives.* Raise real GDP growth to 4–5 percent a year, thereby allowing real per capita income to increase by at least 1 percent a year; reduce inflation to 3 percent by the end of 1997; and contain the exter-

nal current account deficit (excluding official transfers) at 11.1 percent of GDP in 1997, lowering it to 10.5 percent of GDP in 1998. Raise budgetary revenue to the equivalent of 9.3 percent of GDP in 1997 and to 10.7 percent in 1998.

*Policies.* The government would reduce the overall budget deficit to 7.3 percent of GDP by 1998 through enhanced revenue mobilization and a cautious expenditure policy. Expenditure policies would continue to ensure that wages and salaries do not crowd out other essential expenditures, especially those on maintenance and key social services. The government would take steps to streamline the regulatory framework and to reduce its involvement in those areas of interest to the private sector. It would continue efforts to strengthen legal provisions governing commercial transactions and, in particular, the recovery of commercial bank loans. Current budgetary expenditures allocated to health and education would be increased by 10 percent a year in real terms during 1997–2000.

### Pakistan

*Financial Support.* On October 20, 1997, the IMF approved a three-year financing package for SDR 1.14 billion, with SDR 682.4 million available under the ESAF and SDR 454.9 million under the EFF.

*Program Objectives.* Raise the average annual growth rate of real GDP to the 5–6 percent range; progressively reduce annual inflation to about 7 percent; and reduce the external current account deficit (excluding official transfers) to the range of 4–4.5 percent of GDP, with a view to strengthening external reserves substantially. Design fiscal policy to cut the overall budget deficit to 4 percent of GDP by the third year of the program, which would help boost national savings to about 15 percent of GDP in 1999/2000.

*Policies.* The government would further rationalize the public sector, shifting more of the primary productive role to the private sector, and strengthen local institutional capacity. In the public sector, the domestic tax base would be broadened, tax administration strengthened, government expenditure shifted toward the social services and human capital formation, and key public enterprises restructured. The government had also resolved to enhance the authority and the ability of the State Bank of Pakistan to regulate and supervise banks, improve the legal and judiciary process for enforcing financial contracts, privatize the state-owned banks and financial institutions, and develop the capital market. In the external sector, the interbank foreign exchange market would be deepened and exchange rate policy guided increasingly by market developments.

### Panama

*Financial Support.* On December 10, 1997, the IMF approved a three-year EFF credit for SDR 120 million.

*Program Objectives.* Deepen and broaden structural reforms in the context of continued prudent fiscal policy and low inflation, with the goal of promoting sustainable output and employment growth and reducing poverty. Raise GDP growth to 5 percent by 2000, while holding annual inflation at about 1½ percent.

*Policies.* Structural measures would focus on further privatization, import tariff reduction, and financial sector reform during the first half of the program period. Reforms relating to taxation, civil service, and social security would be implemented during the second half of the program period. The authorities would implement an ambitious privatization program, and a new round of substantial tariff reform would take place to further increase transparency and efficiency to attract foreign investment. A comprehensive tax study would be completed in 1998 and its recommendations implemented in the second half of 1999, to improve tax collection by 2000. The authorities would strengthen the social safety net for the most vulnerable groups in society. Efforts would also be made to improve efficiency in the provision of basic health and education service, through investment income from privatization proceeds.

### Philippines

*Financial Support (I).* On July 18, 1997, the IMF approved the extension of an arrangement under the EFF for SDR 474.5 million through December 31, 1997, and its augmentation by SDR 316.7 million. In approving the extension and augmentation of the EFF, the IMF used, for the first time, the accelerated procedures under the Emergency Financing Mechanism.

*Program Objectives.* Achieve economic growth of 6.3 percent in 1997, reduce average inflation to 6.5 percent, contain the external current account deficit to about 4½ percent of GNP, and hold adjusted reserve cover equivalent to 2.1 months of imports of goods and services by year-end.

*Policies.* The new floating exchange rate policy would be supported by strong monetary and fiscal policies. Interest rates would be kept high until the foreign exchange market stabilized, and base money growth reduced to keep annual growth in broad money (including foreign currency deposits) at 23 percent—a rate consistent with inflation and growth targets. Fiscal policy would be tightened in the second half of 1997 to offset slippages in the first half and achieve a public sector surplus of 0.3 percent of GNP for the year as a whole. The fiscal tightening would include revenue-enhancing measures as well as expenditure cuts. The government would also seek passage of the remaining elements of the Comprehensive Tax Reform Package, a vital element of its policies to strengthen savings performance. It would further strengthen the financial system with the help of

recently adopted measures to tighten the limits on the exposure of banks to the real estate market and to discourage the growth of foreign currency liabilities through new liquidity requirements and by removing tax disincentives on peso deposits.

*Financial Support (II).* On March 27, 1998, the IMF approved a two-year Stand-By Arrangement for SDR 1.0 billion. The authorities expressed their intention to treat the arrangement as precautionary and would draw on it only if adverse external circumstances made it necessary.

*Program Objectives.* Contain the slowdown of real GNP growth to 3 percent in 1998 and to 5 percent in 1999; limit inflation to 8 percent in 1998 and to 6.5 percent in 1999; and reduce the current account deficit to 3.1 percent of GNP in 1998 and 2.7 percent in 1999, with adjusted reserve cover rising to 1.9 months of imports in 1998 and to 2.3 months of imports in 1999.

*Policies.* The consolidated public sector deficit would be limited to 0.9 percent of GNP in 1998, followed by balance in 1999. Higher interest payments would be compensated for by cuts in other current and capital expenditures. In implementing the cuts, programs directed at poverty reduction would be protected. Monetary policy would be designed to be consistent with the inflation objective and restoring confidence in the peso, within the overall framework of base money targets and a floating exchange rate regime. Comprehensive and proactive banking sector reforms would be implemented to contain the effects of the slowdown in growth, the peso depreciation, and higher interest rates. Capital requirements would be increased further, provisioning requirements tightened, regulatory oversight strengthened, disincentives to peso intermediation reduced, and a resolution strategy for problem banks adopted. Reforms would be implemented to strengthen the corporate sector, including continuing trade and investment liberalization, comprehensive reform of the power sector, and further privatization. Agriculture would be strengthened, along with improvements in education and health services—with a focus on primary education and the rural areas—helping to reduce poverty. To cushion the impact of the regional crisis on the poor, the availability of rice stocks and other basic commodities would be ensured, the inflationary impact of the peso depreciation on socially sensitive petroleum products contained, and best efforts made to protect social programs in the budget, especially those directed at poverty reduction and the poorest regions.

### Rwanda

*Financial Support.* On December 12, 1997, the IMF approved a credit for SDR 6.0 million, the second of two drawings under the IMF's policy of emergency postconflict assistance, bringing total disbursements for calendar year 1997 to SDR 14.9 million.

*Program Objectives.* Aim at fiscal consolidation, including a reduction in the primary budget deficit, through tax reform and improvements in budget and treasury management. Initiate reforms of the civil service and public enterprise sector, and consolidate financial sector restructuring.

*Policies.* The Ministry of Finance, Economy, and Planning established an administrative unit to spearhead the reform of the public enterprises; three enterprises were privatized, and eight were offered for sale. The demobilization program was initiated with the departure of 5,000 soldiers. The National Assembly had approved support for genocide survivors and the government—assisted by nongovernmental organizations and other members of the international community—was implementing various programs for helping other vulnerable groups.

### Senegal

*Financial Support.* On April 20, 1998, the IMF approved a three-year ESAF loan for SDR 107 million.

*Program Objectives.* Seek to achieve real GDP growth of 5–6 percent a year, thereby allowing per capita income to rise by 2–3 percent a year; keep inflation below 3 percent; and reduce the external current account deficit (excluding official transfers) to less than 7 percent of GDP by 2000.

*Policies.* Fiscal policy would be geared toward limiting the overall fiscal deficit, on a commitment basis and excluding grants, to 2 percent of GDP in 1998. On the revenue side, the authorities would implement the West African Economic and Monetary Union's (WAEMU's) Common External Tariff, substantially reducing average import duties. The short-term revenue losses from the tariff reform would be offset over time by measures to broaden the tax base, drastically reduce exemptions, and improve the efficiency of the tax system. On the expenditure side, the government would maintain strong financial discipline, while reordering priorities in favor of social services and the investment program. Monetary policy would support WAEMU's growth, inflation, and external sector objectives.

The authorities would speed up the implementation of their unfinished reform agenda, particularly public enterprise and energy sector reforms, and undertake new reforms to modernize public administration. The government would design an action plan for public sector reform that would seek to promote good governance, further strengthen the judicial system, and build more constructive relations with the private sector.

### Sierra Leone

*Financial Support.* On May 5, 1997, the IMF approved a third annual ESAF loan for SDR 10.1 million.

*Program Objectives.* Intensify the postconflict recovery by further strengthening the ongoing macroeconomic and structural reforms. Target real GDP growth at about 10 percent, inflation at 8 percent, and gross international reserves at 1.8 months of imports. Aim to reduce the overall budget deficit and improve the quality of expenditure.

*Policies.* To achieve the targeted fiscal deficit reduction, the government would significantly increase revenue and substantially cut military expenditure, in line with the improvement in the security situation. It would achieve the ambitious revenue target for 1997 through discretionary measures and strengthen income tax and customs administration. On the expenditure side, the authorities would use the shift in budgetary resources away from military outlays to education, health, economic services, and capital expenditure to improve the quality of expenditure. Inflation would be kept under control, the reserve position strengthened, and the economic recovery and the reintroduction of money in rural areas supported. Key reforms would include rationalizing the government workforce to improve the quality and efficiency of public services, streamlining public enterprise reform to further reduce government involvement in the economy, and simplifying legal requirements for foreign and domestic investment. Judicial reforms would seek to make legal procedures more transparent and to simplify adjudication of civil and commercial cases to afford greater protection to economic agents. Further reform would be designed to improve fisheries surveillance and deregulate the prices of petroleum products. Increases in budgetary spending on social and economic services would be targeted primarily on enhancing human capital development.

### Tajikistan

*Financial Support.* On December 19, 1997, the IMF approved a credit for SDR 7.5 million under its policy of emergency postconflict assistance. On April 1, 1998, the IMF approved a second emergency postconflict credit of SDR 7.5 million.

*Program Objectives.* Establish financial stability through further fiscal adjustment, tight monetary policy, and enhanced financial discipline in the enterprise sector. Achieve real GDP growth of 4–5 percent in 1998, a fall in inflation to about 18 percent, and a rise in gross international reserves to about 1.5 months of imports by the end of 1998. Design fiscal policy to reduce the government deficit to less than 3 percent of GDP in 1998 and eliminate budgetary wage and cash compensation arrears, while reducing central bank credit to the government.

*Policies.* The program placed considerable emphasis on structural policy measures and institution building to sustain economic recovery and enhance policy

implementation capacity. Particularly important for structural reform were privatization, land reform, bank restructuring, and enterprise reform. The authorities intended to ensure a continued open trade and exchange regime by refraining from introducing restrictions on exports or imports during the program. Tajikistan would continue to use technical assistance from multilateral and bilateral institutions to build on progress in a number of areas, including the compilation of statistics, tax administration, building a treasury system, bank supervision, and central bank operations. On the monetary front, the government would reduce the annual growth rate of broad money to less than 25 percent in 1998. It would normalize relations with external creditors, clear external debt-service arrears, and avoid new debt-service arrears. Sustainable and balanced economic growth would be facilitated by banking sector reform. Smaller businesses would be privatized, and medium- and large-scale enterprises restructured or sold. Tax administration would continue to be strengthened, introduction of a treasury system finalized, and the government would begin to align fiscal accounts with international standards and increase outlays on the social safety net.

### Tanzania

*Financial Support.* On December 3, 1997, the IMF approved a second annual ESAF loan for SDR 71.4 million, incorporating an increase in the initial amount of SDR 51.4 million by SDR 20 million to help Tanzania deal with the effects of drought.

*Program Objectives.* Achieve real GDP growth of 4.7 percent, reduce inflation to not more than 13 percent, and limit the external current account deficit (excluding official transfers) to 14.4 percent of GDP.

*Policies.* Fiscal policy would target a surplus on the current government budget of 1.1 percent of GDP in 1997/98 and rationalization of the structure of both revenues and expenditures, including the introduction of a value-added tax in July 1998. Monetary policy under the program would be consistent with achieving the program's inflation and balance of payments objectives. The government would continue with reforms of the banking and the parastatal sectors, and with civil service reform. The scope of privatization had been widened to include the utilities and other core parastatals, and its pace was being accelerated. Key steps would be taken to strengthen the delivery of health and education services.

### Thailand

*Financial Support.* On August 20, 1997, the IMF approved a Stand-By Arrangement for SDR 2.9 billion under the accelerated procedures of the Emergency Financing Mechanism.

*Program Objectives and Policies.* For details, see Chapter V.

### Togo

*Financial Support.* On June 30, 1997, the IMF approved a third annual ESAF loan for SDR 21.7 million.

*Program Objectives.* Correct weaknesses that occurred in 1996, particularly in the fiscal consolidation effort, and accelerate the implementation of agreed structural reforms. Achieve average annual real GDP growth of more than 5.5 percent; reduce annual average inflation to 3 percent by the end of the program period; and lower the external current account deficit (excluding grants) to an annual average of less than 5 percent of GDP. Reduce the overall fiscal deficit to 4.3 percent of GDP, while improving the primary balance to a surplus of 0.8 percent of GDP.

*Policies.* The authorities would correct weaknesses in fiscal consolidation and accelerate structural reforms. Reforms of the tax system and of tax administration would be continued, with technical support from the IMF. The authorities would increase outlays in real terms for the health and education sectors, and for the rehabilitation and maintenance of infrastructure, while curtailing nonpriority spending. Budgetary and treasury procedures would enhance the control of expenditures, and the government would also undertake a comprehensive restructuring of its domestic debt. The government would pursue the fight against poverty through an appropriate investment policy in the areas of health, basic education, and vocational training. To protect the most vulnerable segments of society, the government would also continue its labor-intensive public works projects.

### Uganda

*Financial Support.* On November 10, 1997, the IMF approved a three-year ESAF loan for SDR 100.4 million. For support under the HIPC Initiative, see Chapter IX.

*Program Objectives.* Sustain high and broad-based economic growth and ensure that the poor would be able to participate in, and benefit from, increased economic activity. Maintain macroeconomic stability, liberalize further the economy to promote private sector and export-oriented growth, and undertake structural and institutional reforms to further reduce impediments to growth and job creation. Achieve real GDP growth of at least 7 percent a year on average, reducing annual inflation to about 5 percent and increasing gross international reserves to the equivalent of 4.9 months of imports of goods and nonfactor services. Increase the gross-investment-to-GDP ratio to about 23 percent in 1999/2000, and reduce the overall fiscal



deficit by about 1.7 percent of GDP over the program period.

*Policies.* The authorities would improve customs and tax administration substantially, reduce the incidence of smuggling, and prevent other forms of revenue leakages while exercising considerable expenditure restraint. Monetary policy would continue to build upon the major gains achieved in reducing inflation, taking into account projected balance of payments developments, the need for adequate provision of credit to the private sector, and increased savings by the government in the banking system. The government would deepen and broaden structural reforms in the financial sector, civil service, tax and customs administration, trade liberalization, privatization program, and enterprise restructuring, and more generally improve the environment for private sector activity through deregulation. The authorities would reduce the incidence of poverty through increased social expenditures and intensify efforts to measure and monitor the outcome of these expenditures.

### Ukraine

*Financial Support.* On August 25, 1997, the IMF approved a one-year Stand-By Arrangement for SDR 398.9 million.

*Program Objectives.* Lay the basis for the resumption of economic growth through structural reforms. Reduce inflation to 15 percent during 1997 and to 12 percent during 1998. Increase gross international reserves to the equivalent of 6.0 weeks of imports in 1997, and to 7.4 weeks of imports in 1998. Design fiscal policy to reduce existing arrears on wages, pensions, and social benefits, while avoiding new arrears. Accelerate privatization, demonopolization (particularly in the agricultural sectors), and deregulation to provide a conducive environment for private sector development.

*Policies.* The main thrust of structural policies would be further deregulation, privatization, and demonopolization. With small-scale privatization virtually complete, the focus would shift to privatizing medium- and large-scale enterprises. The consolidated budget deficit would be limited to 4.6 percent in 1997 and 4.5 percent of GDP in 1998. Structural reforms would include establishing more efficient labor markets through increased wage flexibility, implementing faster land reform and privatization within the agro-industrial complex, and widening and deepening energy sector restructuring. As part of its outward-oriented growth strategy, the government would maintain a liberal and transparent trade regime. Social policies would include a further strengthening of means testing of social programs, streamlining the diverse set of allowances to provide a higher level of benefits to the most needy recipients, and rationalizing the pension and unemployment insurance systems.

### Uruguay

*Financial Support.* On June 20, 1997, the IMF approved a 21-month Stand-By Arrangement for SDR 125 million. The authorities intended to treat the arrangement as precautionary and would draw on it only if adverse external circumstances made it necessary.

*Program Objectives.* Reduce inflation to single-digit levels by the end of 1998 in an environment of sustained output and employment growth and maintain a viable external position. Achieve real GDP growth of at least 3 percent in 1997 and 1998, led by expanded investment and exports; reduce inflation to 14–17 percent by the end of 1997; and strengthen the international reserve position.

*Policies.* Policies would be designed to consolidate public finances; adopt prudent credit and wage measures—including gradual deindexation of wages and administered public sector prices; and continue structural reforms. State reform would be expected to reduce civil service positions by eliminating vacancies, outsourcing, and cutting employment. The government would also increase the participation of the private sector in activities previously reserved for public entities. Special efforts would be made under the program further to assist the most vulnerable groups in society through targeted programs.

### Yemen

*Financial Support.* On October 29, 1997, the IMF approved a financial package for SDR 370.6 million, with SDR 264.8 million under the ESAF and SDR 105.9 million under the EFF.

*Program Objectives.* Achieve real non-oil GDP growth of 6 percent a year on average over the three-year program period, a core inflation rate of at most 5 percent a year on average, a reduction in the external current account deficit to 2 percent of GDP on average by 2000, and maintain sufficient foreign exchange reserves to cover 4.5 months of imports. Seek significant improvements in social indicators through substantially higher budgetary allocations for education and health as well as strengthened social safety net arrangements.

*Policies.* The authorities would continue to maintain a tight fiscal stance and appropriately supportive monetary policies directed at ensuring positive real interest rates. Structural reforms would focus on expenditure reorientation toward the social sectors and public investment in infrastructure; direct and indirect tax reforms; the elimination of subsidies; civil service, pension fund, customs administration, and budget management reforms; financial sector reforms focused on indirect monetary control, the quality of the banking system, and prudential supervision; and a broad privatization program.