INTERNATIONAL MONETARY FUND

IMF Survey

MAY 29, 2006 VOL. 35, NO. 10

www.imf.org/imfsurvey

IMF ready to coordinate action on imbalances

page 147

The IMF is ready to coordinate international action aimed at winding down global payments imbalances so that they do not cause disruption to the world economy by unraveling abruptly, Managing Director Rodrigo de Rato said during a May 22–25 trip to Europe and Southeast Asia. He visited Singapore for talks with senior officials ahead of the IMF–World Bank Annual Meetings to be held there in September.

Zainal Abd Halim/Reuters

Committee formed to study IMF's long-term financing

page 148

IMF Managing Director Rodrigo de Rato announced the establishment of a committee to study the long-term financing of the IMF's running costs. The committee, to be headed by Andrew Crockett (see photo), will provide an independent view of the options available for ensuring that the Fund has a sustainable and durable income base. IMF income has fallen short of target recently because of large loan repayments, the pattern of global imbalances, and easy country access to private capital markets.

Henrik Gschwindt De Gyor/IMF

Emerging market sovereign debt may face test

page 150

Favorable global conditions and improved macroeconomic fundamentals in leading emerging market economies have contributed to the recent increase in demand for emerging market sovereign debt. But the potential reversal of cyclical factors raises questions about the resilience of emerging sovereign debt markets, according to the IMF's recent *Global Financial Stability Report*. To mitigate remaining vulnerabilities, the report encourages emerging market countries to pursue prudent fiscal policies, adopt flexible exchange rates, and improve debt management.

Lower tariffs to boost developing country exports

page 154

Will further trade liberalization envisaged under the Doha Round hurt developing country exports? A new IMF study shows that, for many of these countries, preferential access to industrial country markets is less generous than it appears because of low product coverage and complex rules of origin. Thus, lower multilateral tariffs are likely to lead to a net increase in market access. Another IMF study finds that developing countries could increase their export earnings by reducing their own import tariffs.

Bruno Domingos/Reuters

IN THIS ISSUE

146 What's on

146 IMF financial data

147 In the news
De Rato on imbalances
Committee to study IMF finances
IMF management change

149 Country briefs
Maldives, Israel

150 Global surveillance
Global Financial Stability Report

153 Regional focus
Euro area imbalances

154 Research
Preference erosion
Import protection

158 Policy
Effects of IMF programs

159 IMF lending
HIPC

160 Policy
ECOSOC high-level meeting

What's on

May

29–30 World Bank, Annual Bank Conference on Development Economics, Tokyo, Japan

29–30 "The International Monetary Fund in Transition," cosponsored by the World Economic Forum, the Reinventing Bretton Woods Committee, and the South African Treasury, Cape Town, South Africa

29–30 Seminar on the *Global Financial Stability Report*, IMF Regional Office for Asia and the Pacific, Tokyo, Japan

IMF Executive Board
For an up-to-date listing of IMF Executive Board meetings, see *www.imf.org.external/np/sec/bc/eng/index.asp.*

31–June 2 World Economic Forum on Africa, "Going for Growth," Cape Town, South Africa

June

9–10 Group of Eight Finance Ministers' Meeting, St. Petersburg, Russia

15 European Research Workshop in International Trade, Joint Vienna Institute, Vienna, Austria

15–16 World Economic Forum on East Asia, "Creating a New Agenda for Asian Integration," Tokyo, Japan

16 Bank of Korea International Conference 2006, "Monetary Policy in an Environment of Low Inflation," Seoul, Korea

19–23 World Urban Forum III, Vancouver, Canada

19–23 Financial Action Task Force, Third Plenary Meeting, Paris, France

23–25 China-U.S. Symposium on Building the Financial System of the 21st Century, Beijing, China

July

3–5 High-Level Meeting of the United Nations Economic and Social Council, Geneva, Switzerland

15–17 Group of Eight Summit, St. Petersburg, Russia

August

27–September 1 International Disaster Reduction Conference, Davos, Switzerland

September

10–11 China Business Summit 2006, Beijing, China

19–20 IMF–World Bank Annual Meetings, Singapore

19–20 United Nations General Assembly, High-Level Meeting on the Review of the Brussels Program of Action for the Least Developed Countries, New York, United States

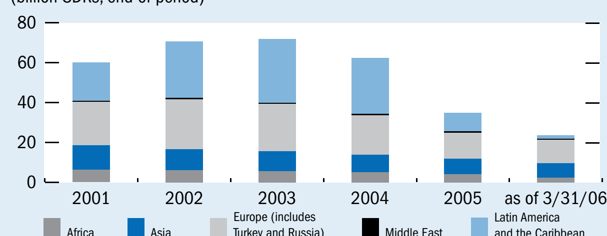
November

23–24 World Economic Forum in Turkey, "Connecting Regions—Creating New Opportunities," Istanbul, Turkey

IMF financial data

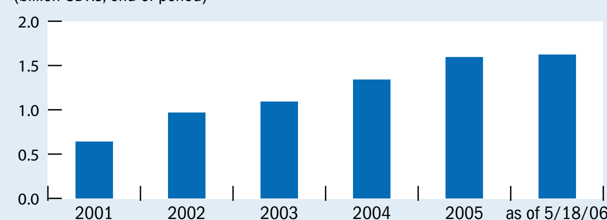
Total IMF credit and loans outstanding, by region

(billion SDRs, end of period)



HIPC debt relief[1]

(billion SDRs, end of period)



[1]Cumulative disbursements under the Heavily Indebted Poor Countries Initiative.

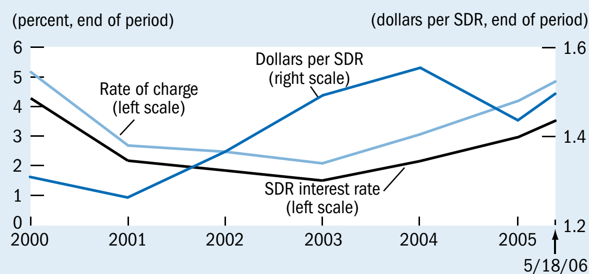
Major currencies, rates per SDR

	May 19, 2006	Year ago (May 19, 2005)
Euro	1.167	1.180
Japanese yen	164.942	159.905
U.K. pound	0.793	0.811
U.S. dollar	1.489	1.493

Related rates

SDR interest rate, rate of charge on IMF nonconcessional loans outstanding, and dollars per SDR

(percent, end of period) (dollars per SDR, end of period)



Note: Special Drawing Rights (SDRs) are an international reserve asset, created by the IMF in 1969 to supplement the existing official reserves of member countries. SDRs are allocated to member countries in proportion to their IMF quotas. The SDR also serves as the unit of account of the IMF and some other international organizations. Its value is based on a basket of key international currencies.

Coordinated action needed to curb imbalances, de Rato says

Joint measures are needed to reduce global payments imbalances that could unwind in an abrupt and disorderly way unless coordinated action is taken, IMF Managing Director Rodrigo de Rato said on a May 22–25 trip to Europe and Southeast Asia.

"Neither changes in Asian exchange rates nor fiscal adjustment in the United States alone can defuse the problem of global imbalances. What is needed is a coordinated international effort to rebalance growth and demand," he said in a speech on May 22 to an Austrian National Bank seminar in Vienna.

"Global imbalances must eventually unwind. The risk is that they will be unwound in an abrupt and disorderly way. For example, there could be an abrupt fall in the rate of consumption growth in the United States, perhaps triggered by developments in the housing market. Or a disorderly adjustment might be triggered by developments in financial markets," de Rato stated. "Recent changes in exchange rates are in the right direction to help aid the adjustment process and, so far, have been orderly. But if investors become suddenly unwilling to hold U.S. financial assets at prevailing exchange rates and interest rates, this could lead to an abrupt depreciation of the U.S. dollar and increases in U.S. interest rates," he added.

Luis Enrique Ascui/Reuters

De Rato: "These multilateral consultations will be something new for the IMF and for our members."

IMF as coordinator

At the Spring Meeting of the IMF in Washington, D.C., in April, the policy-setting International Monetary and Financial Committee of the Board of Governors asked de Rato to pursue multilateral consultations to help curtail the imbalances in an orderly way.

"These multilateral consultations will be something new for the IMF and for our members," de Rato stated, "and they will be an important vehicle for analysis and consensus building. They will enable the Fund and members to address vulnerabilities that affect individual members and the global financial system within a framework that helps overcome some of the hurdles to individual action by emphasizing the benefits of joint action, with benefits for all."

He told reporters that the IMF would examine what specific issues needed to be addressed. The IMF would then initiate discussions with certain countries or regions to work out how the issues could be resolved collectively.

Later, during a visit to Singapore, de Rato said that there was a broad consensus among policymakers on the measures needed to reduce global imbalances. "Most policymakers around the world agree that what is needed is fiscal adjustment and measures to stimulate private saving in the United States, further exchange rate appreciation and measures to stimulate domestic demand in some countries in emerging Asia, and structural reforms to stimulate demand and improve productivity in the nontradables sector in Europe and Japan," he stated. "But this consensus has so far been translated into only limited action."

This is where the IMF could help through a coordinated multilateral approach, de Rato said in a May 24 speech to the Economic Society of Singapore. The Fund's role as a trusted independent source of analysis and advice would enable the major players to move more quickly beyond diagnosis of the problems, to prescriptions for how to fix them, he added.

Consensual approach

The Managing Director emphasized that the process of curtailing the imbalances must be consensual. "It is only going to work if all of those involved want to participate and are convinced that the actions they jointly agree to take are in their own best interests. It will also take time. Global imbalances are a complex problem, many years in the making, and the point of this exercise is not to come up with a quick adjustment—an abrupt adjustment of global imbalances is just what we want to avoid," de Rato said.

He said the aim was to launch "a benign sequence of events" that would allow global imbalances to unwind in an orderly and gradual way. "The necessary condition for success is voluntary, multilateral action over time," he added.

De Rato was visiting Singapore for talks with senior officials ahead of the IMF–World Bank Annual Meetings to be held there in September. He also visited Malaysia on May 24.

During the trip, de Rato repeated assurances that, by September, the IMF would make specific proposals to address the issue of member countries whose Fund quotas do not adequately reflect their economic weight. ■

Committee formed to assess options for IMF income base

The IMF has appointed an external committee of well-known experts to provide the Fund with an independent assessment of the options available to finance its running costs in the future. Until now, the IMF has paid for its operating costs from the interest charges and fees levied on its loans to member countries. But income has fallen short of target recently because of a significant decline in the level of IMF lending, prompting the Fund to explore other sources of funding.

In an announcement on May 18, IMF Managing Director Rodrigo de Rato explained that the Committee of Eminent Persons will focus on how to ensure that the IMF will have a sustainable and durable income base over the long term. To be chaired by Andrew Crockett, President of JP Morgan Chase International and former General Manager of the Bank for International Settlements, the committee will comprise seven members: Mohamed A. El-Erian, President and Chief Executive Officer of Harvard Management Company; Alan Greenspan, Chief Executive Officer of Greenspan Associates and former Chairman of the Federal Reserve Board; Tito Mboweni, Governor of the Reserve Bank of South Africa; Guillermo Ortíz, Governor of the Bank of Mexico; Hamad Al-Sayari, Governor of the Saudi Arabian Monetary Agency; Jean-Claude Trichet, President of the European Central Bank; and Zhou Xiaochuan, Governor of the People's Bank of China. The work of the committee will be supported by Fund staff.

The announcement did not detail which options the committee may examine. However, in the past, the IMF's Executive Board has considered several possibilities, including the following:

- broadening the IMF's investment authority so that it is able to invest its large quotas—capital paid by member countries that is used as a lending pool for those in balance of payments difficulty (currently about $300 billion);
- selling a portion of its gold holdings (103.4 million ounces, or 3,217 metric tons);
- asking members for annual dues;
- imposing user charges (or collecting money from donor countries) for certain services (such as technical assistance) not mandated by the IMF's Articles;
- boosting revenue by earning money from new financial instruments, such as the proposed high-access contingent financing vehicle; and
- borrowing money and investing it at a higher return (as the World Bank does).

As an initial step, the Executive Board approved in May the creation of an investment account that will boost IMF income over the medium term. The committee will focus on long-term changes to the way the IMF funds its core activities, such as surveillance and technical assistance. Despite a small forecast budget shortfall, the Fund has a strong balance sheet, and its current level of reserves of SDR 5.9 billion (about $8.8 billion) could be used to cover a budgetary deficit well into the next decade. A report by the Committee of Eminent Persons is expected in the first quarter of 2007. ■

Lipsky proposed as IMF's next First Deputy Managing Director

Eugene Salazar/IMF

IMF Managing Director Rodrigo de Rato on May 18 nominated John Lipsky to succeed Anne Krueger as the Fund's next First Deputy Managing Director. Lipsky, currently the Vice Chairman of JP Morgan Investment Bank, has previously served as chief economist of JP Morgan, Salomon Brothers, and Chase Manhattan Bank, where he was also director of research. Before joining Salomon Brothers in 1984, Lipsky spent a decade at the IMF, where he worked on a number of countries and served as the Fund's Resident Representative in Chile during 1978–80.

"John Lipsky will bring to this important position an international reputation in macroeconomics, a first-rate record in leadership, and outstanding skills as a communicator," de Rato said. "John is no stranger to the Fund, having worked here for 10 years until 1984. Since then, he has enjoyed a highly successful career working as an economist on financial markets. John has also been an influential commentator on the reform of the international financial system and the work of the Fund. This breadth of skills and experience will enable him to make a major contribution in the period ahead as we implement the Fund's Medium-Term Strategy."

In 2000, Lipsky chaired the Financial Sector Review Group, set up by then–IMF Managing Director Horst Köhler to provide the Fund with an outside perspective on how to organize its financial sector and capital markets work. A U.S. national, Lipsky has an M.A. and a Ph.D. in economics from Stanford University.

The IMF's First Deputy Managing Director is selected and appointed by the Managing Director, and the appointment must be approved by the IMF's Executive Board. Lipsky will serve a five-year term. "John will build on the legacy of Anne Krueger, who has served the Fund with great distinction over the past five years," de Rato said. Lipsky is expected to be able to begin his new position on September 1, 2006. ■

Prudent fiscal policy holds key to Maldives' future economic stability

In the decade prior to the December 2004 tsunami, Maldives benefited from expanding tourism receipts and sound macroeconomic management to raise per capita income by 60 percent to above $2,500 and significantly improve social indicators. But the economic consequences of the tsunami were severe. Real GDP dropped by an estimated 3¾ percent in 2005, tourist arrivals fell by one-third, foreign exchange earnings plummeted, the current account deficit (exacerbated by higher oil prices) increased by 11½ percentage points of GDP, official reserves declined markedly, and the fiscal deficit surged.

According to the IMF's latest economic review, however, tourist arrivals began to make a strong recovery toward the end of 2005, and real GDP is expected to rebound in 2006. And, despite high financing of the budget by the Maldives Monetary Authority (MMA), inflation has been subdued, because domestic currency lending has been modest.

The IMF Executive Board expressed deep sympathy for the losses inflicted on Maldives by the tsunami and commended the authorities for recently accelerating reconstruction work with donor support. Looking ahead, Directors called for a return to a firm commitment to prudent fiscal policy, which, with monetary discipline, provides indispensable support for the country's exchange rate peg arrangement. They underlined the importance of accelerating the introduction of corporate profit taxation and a broad-based sales tax to boost revenues, and of managing expenditures based on realistic revenue projections while protecting priority spending. The authorities were also urged to end automatic financing by the MMA.

Directors praised efforts to introduce indirect monetary management and improve banking supervision but urged the speeding up of structural reforms. A business environment conducive to broad-based private investment, supported by the privatization of public enterprises and the implementation of key economic and financial legislation, would be critical to achieving medium-term viability, they said. ■

Maldives	2002	2003	2004	Est. 2005	Proj. 2006
Real GDP (percent change)	6.5	8.5	8.8	–3.6	8.0
Consumer prices (period average)	0.9	–2.9	6.4	5.7	7.0
	(percent of GDP, unless otherwise indicated)				
Overall government balance	–4.9	–3.4	–1.7	–12.3	–21.3
Current account balance	–5.6	–4.6	–16.1	–36.5	–38.5
Gross official reserves (year-end, million U.S. dollars)	134.6	161.0	205.2	187.2	164.0

Data: Maldivian authorities and IMF staff estimates and projections.

With a stronger economy, Israel should focus on reducing public debt

After performing well in 2004, Israel's economy expanded at a faster pace in 2005, thanks to a favorable global environment, improved security, and prudent policies. Real GDP grew at about 5.2 percent in 2005, inflation has remained in check, and unemployment has continued to fall. The exchange rate, balanced by robust economic activity and relatively low interest rates, has been broadly stable.

Recent macroeconomic policies and structural reforms have opened up the economy, increased its competitiveness, and attracted foreign investment, according to the IMF's annual review. Efforts to bring down the public debt have improved confidence in Israel's macroeconomic outlook. The authorities are committed to maintaining future fiscal deficits below 3 percent of GDP and to limiting government expenditure growth. Monetary policy has been accommodative despite recent increases in the policy interest rate. Proposed legislation would strengthen the central bank's independence and help maintain price stability.

To boost competition and efficiency, the authorities have pursued structural reforms, including privatization in key sectors and reform of the capital market. A rapidly changing financial system, however, requires greater scrutiny, and the authorities are committed to refining their supervisory and regulatory activities.

The IMF's Executive Board noted that there was further scope to enhance growth and reduce vulnerabilities, especially to external shocks. Directors encouraged the authorities to capitalize on Israel's strong growth and favorable fiscal situation in 2005 to reduce the deficit to well below 3 percent of GDP, thereby reducing the public debt. Such fiscal consolidation would underpin lower real interest rates and lead to greater private investment, lower future taxes, and stronger medium-term growth.

The authorities should also strive to ensure financial sector stability in a context of relatively high credit risk and rapid capital market development. Directors noted that the level of problem loans remains high, and rapid capital market development has introduced new supervisory and regulatory challenges. They welcomed the measures taken to reduce banks' exposure to credit risk and increase their provisioning but stressed the need for continued supervisory vigilance of systemically important financial institutions. ■

Israel	2002	2003	2004	2005	Proj. 2006[1]
	(percent change, unless otherwise indicated)				
Real GDP	–1.2	1.7	4.4	5.2	4.2
Consumer price index (end period)	6.5	–1.9	1.2	2.4	2.0
Unemployment rate (percent of labor force)	10.3	10.8	10.3	9.1	8.5
Central government balance (percent of GDP)[2]	–4.2	–6.5	–5.1	–2.7	–3.5

[1]National accounts and balance of payments indicators reflect the latest estimates from the Central Bureau of Statistics.
[2]Based on proposed 2006 budget.
Data: Bank of Israel, *Annual Report*; Central Bureau of Statistics; and IMF, *International Financial Statistics*, and staff estimates and projections.

For more information, please refer to IMF Public Information Notices Nos. 06/21 (Maldives) and 06/33 (Israel) on the IMF's website (*www.imf.org*).

Emerging sovereign debt markets appear less vulnerable

Over the past five years, many emerging market countries have improved their macroeconomic fundamentals and debt management capability and have undertaken structural reform; some have benefited handsomely from rising commodity prices. These developments have led to a significant upgrading of the emerging market sovereign debt class, almost half of which is now at investment grade. Low yields in mature market assets, coupled with improved quality and performance of emerging market assets, have increased mature market investor interest in the emerging market asset class. According to the IMF's *Global Financial Stability Report (GFSR)*, which takes a close look at 18 leading emerging market economies, the vulnerability of major emerging sovereign debt markets to external risks is declining and appears to be lower than in the 1990s. However, emerging market countries should work to mitigate remaining vulnerabilities by pursuing sound macroeconomic and debt management policies.

First, global liquidity conditions and the potential turning of the mature market interest and credit cycles may leave some countries—particularly those with high debt-to-GDP levels—at risk for adverse developments. Second, macroeconomic performance is not uniform across countries, and even those with higher performance are better at taming inflation than at reducing fiscal deficits and debts. Third, while generally positive, growing investor involvement in emerging markets could reverse in the face of unexpected shocks. For these reasons, the *GFSR* recommends that emerging market countries continue to pursue sound macroeconomic policies, particularly prudent fiscal policy and flexible exchange rates; acquire deeper knowledge of their investor base; and continue to improve debt management to reduce vulnerabilities.

Better fundamentals

Emerging market countries have stronger external and fiscal positions and lower inflation.

(percent)

	1996	2005	Change
Current account/GDP	–1.8	1.7	3.5
Total (public + private) external debt/GDP	32.2	28.8	–3.4
Reserves/short-term debt	145.9	400.1	254.1
Fiscal balance/GDP	–3.1	–2.4	0.8
GDP growth	7.5	5.2	–2.2
Inflation	23.5	5.9	–17.6

Data: IMF, *Global Financial Stability Report*, April 2006.

Capitalizing on improved fundamentals

Since the Asian crisis, many emerging market countries have adopted more flexible exchange rate regimes, increased anti-inflationary credibility, strengthened economic and fiscal and current account performance, and accumulated foreign exchange reserves. Better data and timelier provision have accompanied these improvements (see table). The collective result is improved credit ratings and compressed sovereign spreads, which, together with low global interest rates, have helped reduce debt and debt service burdens.

Capitalizing on this success, many countries have improved their overall debt management operations and capacity. Emerging market debt managers have reduced exchange rate risk by decreasing the share of foreign currency–denominated debt; interest rate risk by increasing the share of fixed-rate debt, and rollover risk by increasing the average term to maturity, or duration, of the debt stock by lengthening maturities and smoothing the repayment schedule.

To reduce their exposure to foreign exchange risk, emerging market authorities have been repaying international bonds and issuing more domestic currency debt (see chart on page 151, top panel). Emerging market countries have been issuing more local currency bonds—the share of local currency–denominated bonds in marketable sovereign debt of countries in the sample rose by about 9 percentage points, to 82 percent between 1996 and 2004. This shift reflects the growing willingness of foreign investors to accept local currency, the rapid growth of the domestic institutional investor base in emerging market countries, and a recent trend toward de-dollarization.

Countries have managed rollover risks by increasing the average maturity of debt (see chart, middle and bottom panels). They have also reduced interest rate risk by extending debt maturities and increased use of nominal (fixed interest rate) bonds. While the average proportion of fixed-rate debt has increased somewhat, domestic sovereign debt varies widely across countries: it is mainly fixed rate in emerging Asia (except in Indonesia) and floating rate in Latin America. Some countries with a history of hyperinflation and/or volatile inflation rates issued more inflation-indexed bonds to extend the maturity of local currency debt.

Broader investor base

At the same time, the investor base in emerging market sovereign debt has become increasingly diverse. Although data on the composition of investors in sovereign bonds, particularly for external debt, are incomplete, two trends

are nonetheless clear. First, foreign investors are increasing their exposure to domestic currency and domestically issued debt. Second, the share of longer-term investors among both foreign and domestic investors seems to be growing. The composition of investors in emerging market sovereign debt appears to be moving closer to that in mature market debt; the role and importance of institutional investors have generally increased, particularly at the long end of the maturity spectrum.

Foreign investors. The emerging market investor base is shifting from highly active short-term traders toward more strategic, buy-and-hold investors in international foreign currency issues. The growing presence of mature market strategic investors may lend greater stability to the emerging market sovereign asset class. The investor base is also diversifying geographically and through the inclusion of official investors. There appears to be a secular trend toward a higher allocation to local currency instruments within international investors' portfolios. The data suggest the share of foreign creditors in domestically issued debt almost doubled between 2000 and 2005. Mature market investors have shown interest in international emerging market sovereign debt issues in local currencies because of their higher real yields relative to foreign currency issues. Moreover, foreign investors prefer the global bond structure because of the bonds' familiarity and more efficient logistics. Some issues also avoid convertibility risks. The growing share and diversification of foreign investors and their interest in local currency debt are generally welcome news for emerging markets, but the trend also underscores the need for all emerging market authorities to maintain sound policies.

Domestic investors. The domestic investor base for emerging market sovereign debt has also changed over the past five years. Although the share of banks, the largest domestic investors, has remained high, it has gradually declined while the share of institutional investors has risen rapidly. Pension funds are the second-largest investor class, thanks to their steady growth in emerging markets. The share of pension funds in emerging market public debt is likely to expand as these countries implement reforms to create private pension plans.

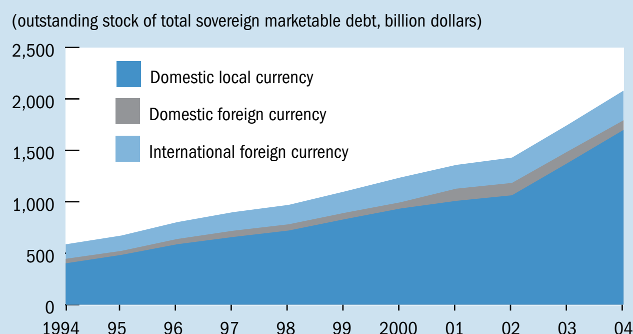
Insurance companies are also becoming increasingly important. Mutual funds are still only marginal players in emerging market domestic sovereign debt, but their share is growing rapidly and is likely to continue to grow. Central banks are no longer important investors in their own domestic sovereign debt. The share of domestic retail investors has grown rapidly in some countries and declined in others. Finally, the share of domestic investors in externally issued debt has grown in tandem with the share of foreign investors in domestically issued debt, more than doubling over 2002–04.

To sum up, the investor base of emerging market sovereign issuers is widening. An increasingly diversified local

Decreased risk exposure, increased maturity

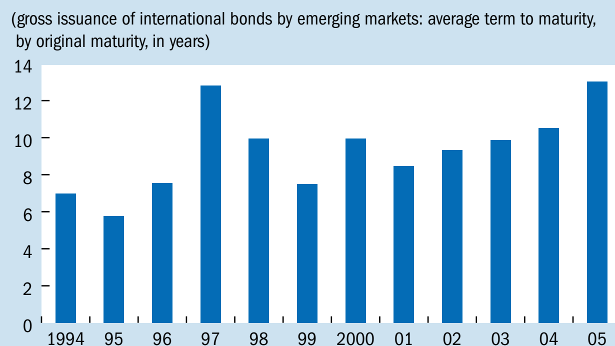
Emerging market countries have been issuing more local currency bonds.

(outstanding stock of total sovereign marketable debt, billion dollars)



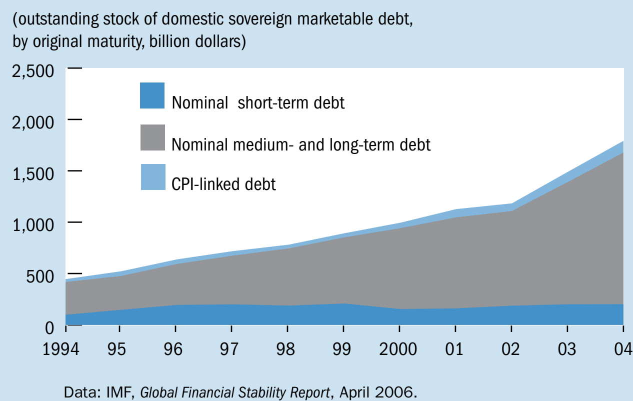
The maturity of emerging market sovereign international debt issues has increased.

(gross issuance of international bonds by emerging markets: average term to maturity, by original maturity, in years)



The maturity of domestic sovereign debt has also increased.

(outstanding stock of domestic sovereign marketable debt, by original maturity, billion dollars)



Data: IMF, *Global Financial Stability Report*, April 2006.

Alberto Buzzola/OnAsia

Many emerging market countries have improved their overall debt management operations and capacity.

currency investor base bodes well for longer-term financing, reducing exchange rate–induced shocks, and better functioning of domestic debt markets. The widening of the investor base has been induced partly by a cyclical search for yield and lower risk aversion and is thus reversible.

Becoming less vulnerable

Overall, the vulnerability of major emerging sovereign debt markets to external risks is declining and appears to be lower than it was in the 1990s (see chart below). Emerging market countries should build on their recent successes and mitigate remaining vulnerabilities through sound macroeconomic policies, especially prudent fiscal policies and flexible exchange rates, and, as recent evidence clearly shows, active debt management.

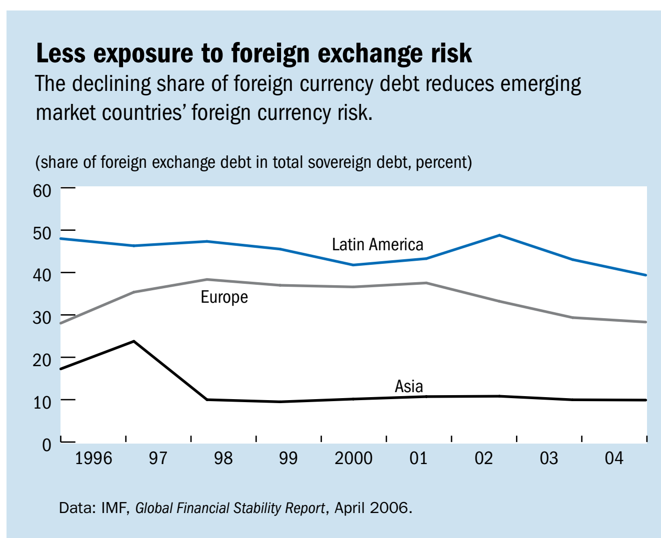
A wider group of countries could consider buying back external debt, exchanging foreign currency debt for local currency debt, and gradually lengthening yield curves. Some countries could benefit from improved investor relations programs and enhanced data transparency. There is also room for further developing local capital markets in major emerging market countries to help attenuate vulnerabilities and broaden the investor base.

Efforts to improve debt management should continue; in particular, emerging market issuers need to structure their debt to minimize costs subject to risk constraints that determine currency composition, maturity profile, and interest rates. They also need to ensure adequate size and liquidity for key benchmark issues and to strengthen institutional capacity. It is equally important to develop specific investor segments, such as domestic and foreign long-term institutional investors, and keep investors informed through investor relations programs. ■

Ceyla Pazarbaşioğlu, Hemant Shah,
Anna Ilyina, and Paul Ross
IMF International Capital Markets Department

Less exposure to foreign exchange risk

The declining share of foreign currency debt reduces emerging market countries' foreign currency risk.



Data: IMF, *Global Financial Stability Report*, April 2006.

Copies of the *Global Financial Stability Report* are available for $49.00 each from Publication Services. See page 160 for ordering information. The full text of the report is also available on the IMF's website (*www.imf.org*).

External imbalances in the euro area are cause for concern

Much attention has been focused on global payments imbalances involving the United States, the oil producers, and Asia, yet external imbalances of individual euro area countries have also been widening recently and are approaching similar magnitudes. With the current account balance of the euro area as a whole small and relatively stable, this is not much of a policy concern: indeed, external account positions of the members of a currency union do not involve the same risks as those of countries with independent currencies. No one worries about California's balance of payments, for example, even though the size of its economy is similar to those of the largest euro area countries.

Still, developments inside the euro area are striking and seem to point to unsustainable dynamics. Reflecting common factors, such as the area's business cycle, the rise in oil prices, and developments in the euro's exchange rate, the current account balance of the four largest euro area economies—France, Germany, Italy, and Spain—together declined by 0.8 percentage point of GDP between 1997 and 2005 (see table). However, differences among the countries were stark: Germany's current account balance rose by 5 percentage points of GDP, and those of the other three fell by between 4 and 7 percentage points of GDP.

Widening imbalances

The four largest euro area economies share a common currency, but their striking imbalances point to unsustainable dynamics.

(current account imbalances, percent of GDP)

	Euro area 4	France	Germany	Italy	Spain
1997	0.7	2.8	–0.4	2.8	–0.1
2005	–0.1	–1.4	4.6	–1.9	–7.1

Data: IMF, *World Economic Outlook*.

Why this divergence?

In an economic and monetary union, without independent monetary policy for each of the members, adjustment to differences in cyclical position in demand will be associated with changes in competitiveness and the external account. For example, weak domestic demand—such as has been observed in recent years in Germany—depresses prices and wages, which improves competitiveness and boosts net exports. The inverse happens in countries with strong domestic demand—for example, France and Spain.

Consistent with this story, a recent cross-country IMF staff study finds that the evolution of cost and price competitiveness explains a sizable part of the disparity in export performances. Even though the euro area countries share a common currency, their unit labor cost–based exchange rates, driven by relative cost and productivity developments and the direction of trade, behaved differently.

Thus, the effect on Germany's international competitiveness of the euro's appreciation from its 2000 trough has been outweighed by favorable productivity developments, moderation in wage increases, and the containment of other costs. And France has experienced only a modest real appreciation, mainly because of productivity increases. Spain, in contrast, has seen a large deterioration in competitiveness because wage increases have exceeded productivity gains. And, in Italy, falling productivity has swamped any benefits from moderate wage developments, causing a sharp deterioration in competitiveness. In fact, Italy's move into current account deficit occurred in spite of weak domestic demand.

Structural factors have also played an important role. They stem from differences in the degree of integration in the world economy, the geographical orientation and sectoral composition of exports, and, perhaps equally important, different paces of structural reform in labor and product markets in the four countries. On this score, Germany seems to be reaping the benefits of its labor market reforms, while Italy is suffering from a lack of such reforms. Pricing behavior also plays a role, at least in the short run. Italy's exporters seem to have been passing through to export prices a higher-than-average percentage of the increase in unit labor costs, though at the expense of losing market share.

A caveat to these findings is that a significant part of trade behavior, especially during 2001–05, cannot be attributed to traditional explanatory variables. Further research and more country-specific analysis will be needed to try to explain why estimated trade trends were favorable and trade performed better than predicted for Germany, whereas such trends were unfavorable and trade was weaker than predicted for France, Italy, and Spain. These developments, if persistent, signal a need to improve competitiveness in the last three countries. ■

Luc Everaert, IMF European Department

For more information, please see IMF Country Report No. 05/401, *France, Germany, Italy, and Spain: Explaining Differences in External Sector Performance Among Large Euro Area Countries*. Copies are available for $15.00 each from IMF Publication Services; see page 160 for ordering details. The full text is also available on the IMF's website (*www.imf.org*).

Benefits from lower trade tariffs are likely to offset losses

For developing countries with preferential access to developed countries' markets, the World Trade Organization's (WTO) current Doha Round of negotiations raises an important question: what will multilateral tariff reductions mean for their access to export markets? A new IMF Working Paper finds that, in practice, a large share of developing countries' exports do not currently enjoy preferences, so there is less to lose from preference erosion than might be thought. Moreover, for many developing countries, a multilateral lowering of tariffs is likely to produce a net expansion of market access.

Wallet Patrick/Gamma

Trucks from the Central African Republic and other African countries line up to pay customs duties at the harbor in Douala, Cameroon.

How do preferences work? Many developed countries permit developing countries to export their products to developed countries at lower tariff rates—and, in some cases, at zero tariff rates—than those applied to other WTO members. Thus, the worry is that tariff cuts across the board for all members, as envisaged under the Doha Round, would reduce the relative advantage that developing countries' exports currently enjoy—that is, the "preference margin" would be eroded. At the same time, however, one advantage of tariff cuts would be the gains in market access for goods that do not currently receive preferences, which would offset losses from preference erosion. The question, of course, is whether the gains will outweigh the losses.

Preferences are not so generous

The study's authors argue that preferences are, in fact, less generous than they seem: they do not apply to a large proportion of products and are subject to restrictive rules. In the United States, for example, the Generalized System of Preferences applies to only about half of the tariff lines. Certain articles, such as textiles, watches, footwear, handbags, luggage, steel, glass, and electronic equipment, are ineligible for the scheme. In addition, duty-free access for eligible products is subject to "competitive needs limitations" for each product and country. These limits come into play once a country's imports reach 50 percent of the value of total U.S. imports of a given product or if those imports exceed a certain dollar value.

In the European Union (EU), a broader range of goods is eligible for preferences, but other restrictions mean that developing countries' exports are often subject to the nonpreferential rate. Restrictive rules of origin often make it too costly for developing countries to take advantage of all the preferences. In some cases, the EU's product-specific rules of origin allow as little as 5 percent of inputs to be imported and specify processing requirements for those imports. For a product to receive preferences at an EU border, a form must also be stamped by an officially designated government authority. In many cases, therefore, developing countries' exports still face high trade barriers.

Moreover, despite various preference schemes, exports from some least developed countries (LDCs) and other developing countries to developed countries are subject to high average tariffs. This discrepancy, the authors explain, is due to different commodity composition and different preference schemes. For all goods, on average, exports from non-African

Average tariffs are higher than they seem

Exports from the poorest countries, except those in Africa, face higher tariffs to enter developed countries' markets than do exports from developed countries.

Exporting country	Average tariff paid on imports into the United States (percent)	Average tariff paid on imports into the European Union (percent)
African LDCs	0.07	0.80
Non-African LDCs	13.14	5.10
Other developing countries	1.82	2.37
Developed countries	1.15	2.89

Note: For each product, defined at the U.S. tariff-line level, the average tariff is calculated as the value of duties collected divided by the value of goods imported. Tariffs are averaged across all goods. LDCs = least developed countries.
Data: World Integrated Trade Solution, U.S. Census Bureau, and European Union.

LDCs to the United States and the EU are subject to higher tariffs than are exports from developed countries (see table, previous page). For those goods in which countries have a comparative advantage, and thus export a large share, LDC and other developing country exports face a higher tariff than do developed countries' exports to the United States. This does not hold for exports going to the EU, which offers tariff reductions for LDCs under its Everything But Arms program and its program for African, Caribbean, and Pacific countries. Exports by non-African LDCs face the highest average tariffs in both the United States and the EU. African LDCs' exports face the lowest average tariffs on these goods.

Gaining ground through lower tariffs

A 40 percent uniform multilateral tariff cut would improve market access for all the country groups, except the African LDCs.

	Change in import demand by:								
	EU	U.S.	EU and U.S.	EU	U.S.	EU and U.S.	EU	U.S.	EU and U.S.
Export country	No exclusions			Exclusion of highest 3 percent tariff lines			Tiered formula in agriculture		
	(percent change in market access)								
African LDCs	0.64	−1.01	−0.15	0.17	−0.75	−0.27	0.83	−1.01	−0.04
Non-African LDCs	4.14	13.90	8.54	4.08	10.64	7.04	4.16	13.90	8.55
Other developing	2.84	1.86	2.28	2.12	1.63	1.83	3.19	1.88	2.43
Developed	2.97	1.59	1.98	2.41	1.47	1.72	3.27	1.60	2.08
All	2.89	1.73	2.14	2.26	1.55	1.79	3.21	1.74	2.27

Note: The tiered formula in agriculture is based on the Harbinson proposal, which estimates a 40 percent cut in tariffs under 20 percent; a 50 percent cut in tariffs between 20 percent and 80 percent; and a 60 percent cut in tariffs above 80 percent, with a 100 percent cap. LDCs = least developed countries.
Data: Authors' calculations.

Cutting tariffs, widening access

To study the impact of multilateral tariff cuts—and, hence, changes in market access—the authors proxy changes in import demand by the United States and the EU under three scenarios (see table, this page). Their results show that, if the Doha Round leads to a multilateral tariff reduction, many of the poorer countries stand to gain more from increased access to developed countries' markets than they will lose from preference erosion.

A uniform 40 percent cut in tariffs, for example, would enable all country groups—except the African LDCs—to enjoy increases in market access to the United States and the EU (see table above, columns 1–3). African LDCs would experience a small loss of 0.15 percent, on average. But countries have been negotiating the number of tariff lines that would be allowed to be excluded from tariff cuts. And if, for example, 3 percent of the highest tariff lines were excluded, then the gains in market access for all export country groupings would decline (see columns 4–6). The largest gains for all country groups would occur with a tiered formula in agriculture (see columns 7–9).

Winners and losers

Not all developing countries increase their market access under all the scenarios analyzed. In Haiti, for example, preference erosion may cause large losses from reduced clothing exports. Sub-Saharan African countries may see a decline in their exports of minerals, particularly crude petroleum, to the United States.

All of the policy simulations show that non-African LDCs would enjoy the largest percentage increase in access to the combined U.S. and EU markets, particularly for clothing exports. Among developing countries, Mexico would experience net losses, mainly because tariff cuts by the United States for other countries would reduce Mexico's current preference margins. China and South Asian countries would gain from further tariff cuts because they benefit little from existing preferences.

The countries that are likely to lose market access as a result of multilateral tariff cuts are those few that receive very large benefits under existing preference schemes.

Overall, the authors conclude, reducing multilateral tariffs under the Doha Round will increase access for many developing countries to the import markets of developed countries, more than offsetting the losses resulting from preference erosion. The countries that are likely to lose market access as a result of multilateral tariff cuts are those few that receive very large benefits under existing preference schemes. To maximize the net gains in market access, countries should pursue tariff reductions for all tariff lines and opt for a tiered formula of tariff cuts, with higher-than-average tariff cuts in agriculture. ■

Mary Amiti
IMF Research Department

This article is based on IMF Working Paper No. 06/10, "Will the Doha Round Lead to Preference Erosion?" by Mary Amiti and John Romalis. Copies are available for $15.00 each from IMF Publication Services. Please see page 160 for ordering details. The full text is also available on the IMF's website (*www.imf.org*).

A tax on imports is a tax on exports

Developing countries that seek to increase their export earnings often justifiably complain that trade barriers applied by rich countries make it difficult for them to achieve their goal. Yet developing countries' *own* pattern of import protection may retard their export performance. A new IMF Working Paper finds that a country's import tariff structure acts as a tax on its export sector and thus frustrates the goal of raising export earnings. Reducing import restrictions is an export-promotion strategy that developing countries can pursue independently of the policy stance of rich countries.

Why should developing countries reexamine their import protection policies? A country's tariffs on imports discourage exports in three main ways. First, *tariffs raise the domestic price of imports relative to exports*—or, equivalently, they lower the domestic price of exports relative to imports. Thus, tariffs raise the output of the import sectors receiving protection, but do so at the expense of lower production of exports. An import tariff and an export tax have symmetrical effects on domestic relative prices; it is possible to find an export tax rate that would produce the same relative prices as those that would result from a tariff on imports.

By causing the price of tradables relative to that of nontradables to decline, tariffs reduce the country's international competitiveness.

Second, *tariffs on imports discourage all types of exports*—not just those from a single sector—because they cause a country's real exchange rate to appreciate. Tariffs tend to raise the prices of nontradable goods and services relative to the international prices of imports and exports and therefore provide an incentive to shift production toward nontradables and away from tradables. By causing the price of tradables relative to that of nontradables to decline, tariffs reduce the country's international competitiveness. The real exchange rate appreciation that results from a rise in import tariffs affects all exportables in an economy and could reduce exports.

Third, *tariffs and other import barriers discourage a country's exports by raising the price of imported intermediate inputs used by exporters*. At a given price of exports, the higher input costs resulting from import barriers reduce the output of exportables, because the barriers result in negative effective protection—the nominal rate of protection on output adjusted for the rate of protection applied to intermediate inputs. The World Bank has estimated effective rates of protection, or cost penalties, on exports resulting from import tariffs in four countries (Brazil, China, India, and Malawi) for 1986 and 1997. The estimates show that reductions in import tariffs in each of these countries have lessened the bias against exports.

Bruno Domingos/Reuters

A container ship waits to unload its cargo in the port of Rio de Janeiro, Brazil.

How large is the anti-export bias?

Using an economic model that represents the channels through which import tariffs affect exports, export-tax equivalents of import tariffs were computed for 26 mostly low-income developing countries. The results show that a country's tariff structure can produce a significant implicit tax on exports. In the countries studied, import tariffs are equivalent to a 12.5 percent tax on exports, on average; seven countries have export-tax equivalents in excess of 16 percent; and four have export-tax equivalents higher than 25 percent.

To compensate for the bias against exports introduced by import tariffs, some countries use a duty-drawback system, whereby exporters receive a rebate for the tariffs they pay on imported intermediate inputs. But such a scheme does not fully remove the anti-export bias, because it does not reverse or offset the reduction caused by the import tariffs in the domestic relative price of exports. Furthermore, a drawback scheme can be costly to administer.

Tariff cuts to boost exports

A more effective way to reduce export disincentives is through tariff reductions, which would encourage the expansion of exports by reducing the cost of imported intermedi-

ate inputs to exporters and by raising the price of exports relative to those of both imports and nontraded goods. The effect of tariff reductions on export incentives depends on how the reductions are structured. The table shows how export incentives would be affected in three hypothetical tariff-cutting cases. In general, the results show that the deeper the tariff cuts, the larger the reduction in export disincentives.

- Scenario 1 (column 2) assumes that a country's higher tariff rate is reduced by a larger percentage than its lower tariff rate; the result is that export disincentives, as measured by the uniform export tax equivalent, decline by the largest amount compared with the initial situation.
- In scenario 2 (column 3), the assumed tariff reductions are smaller; the result is that export disincentives decline compared with the initial situation, but by less than they do under scenario 1.
- Scenario 3 (column 4) assumes that the lower but not the higher tariff is reduced; here, export disincentives in general are reduced, but in six countries the uniform export-tax equivalent *increases* because the reduction in the lower tariff reduces output in the affected sector and releases resources for use in other sectors. Some of these resources are absorbed by producers in the higher-tariff sector—raising the cost of the tariff in that sector. Scenario 3 illustrates the idea that exempting certain sectors from tariff reductions, particularly sectors in which tariffs are high, can be detrimental.

In general, the most effective of the three tariff-cutting formulas for reducing export disincentives is the one in which import tariffs are reduced by the largest percentage and in which higher tariffs are reduced by more than lower tariffs. At the Doha ministerial meeting in Hong Kong SAR in December 2005, countries decided to adopt a "Swiss formula" for some types of tariff reductions—in which higher tariffs are reduced by a larger percentage than lower tariffs. This represents a real achievement of the Doha Round.

Import tariffs are not the only factors discouraging exports. Many developing countries maintain a wide range of nontariff barriers to imports, such as quantitative restrictions and import licensing schemes. Other, nontrade disincentives include high port charges and internal transport costs, cumbersome customs practices, and regulation, all of which also discourage exports. Like tariffs, nontariff barriers raise the price of imports and thus discourage the production of exports by drawing resources away from the export sector. The impact of nontariff barriers and informal barriers is difficult to measure, but if it were taken into account, the bias against exports would likely appear larger than shown in the table.

Reducing export disincentives

Lower import protection would improve a country's ability to export.

	Export-tax equivalents of tariff barriers (in percent)			
	Initial level	Scenario 1	Scenario 2	Scenario 3
Tunisia	33.6	17.8	21.2	34.2
India	31.0	16.4	18.7	27.7
Morocco	26.7	13.7	15.9	25.3
Egypt	26.2	13.1	16.1	27.8
Romania	18.4	9.4	11.4	19.5
Bangladesh	18.2	9.2	11.1	18.8
Thailand	16.5	8.7	10.3	16.6
Tanzania	14.1	7.5	8.4	12.6
Vietnam	12.7	7.3	7.6	9.9
Peru	10.9	6.0	6.6	9.4
Mozambique	10.8	5.6	6.5	10.6
Malawi	9.8	5.2	5.9	9.1
Philippines	9.7	4.8	5.9	10.3
Colombia	9.3	5.0	5.6	8.8
Zambia	8.6	4.6	5.2	8.1
Brazil	8.1	4.0	4.9	8.1
Argentina	8.0	4.1	4.8	7.9
Uruguay	5.5	2.9	3.3	5.2
Botswana	3.7	1.9	2.2	3.6
Madagascar	3.6	1.8	2.2	3.6

Note: Scenario 1 assumes that a country's higher tariff is reduced by 50 percent and its lower tariff is reduced by 40 percent. Scenario 2 assumes that all tariffs are reduced by 40 percent. Scenario 3 assumes that a country's higher tariff is not reduced, but the lower tariff is reduced by 40 percent.
Data: Author's calculations.

Designing a tariff-reducing strategy

Import protection creates disincentives that hinder a country's ability to export. A country cannot simultaneously protect its import-competing sectors and promote its export sectors—these policies work at cross-purposes. Reducing import barriers such as tariffs would serve as an export promotion strategy by lessening the implicit tax the barriers impose on exports.

How countries reduce import tariffs has important implications for export incentives and well-being. Though reducing import tariffs will generally improve export incentives, tariff-reduction schemes that exempt high-tariff or sensitive sectors could actually leave countries worse off. Reducing all tariffs, and reducing high tariffs more than low ones, would be the best tariff-cutting strategy to improve export incentives and real income in developing countries. ■

Stephen Tokarick
IMF Research Department

This article is based on IMF Working Paper No. 06/20, "Does Import Protection Discourage Exports?" by Stephen Tokarick. Copies are available for $15.00 each from IMF Publication Services. Please see page 160 for ordering details. The full text is also available on the IMF's website (*www.imf.org*).

Digging deeper into the effects of IMF-supported programs

To learn from past experience and to prepare for new challenges, the Fund's staff has devoted much energy over the years to assessing the impact of the adjustment programs that the IMF supports in its member countries. In a just-published volume, *IMF-Supported Programs: Recent Staff Research*, a rich sample of contributions sheds new light on what has worked and what has not.

What sets the latest staff research apart from earlier studies is the recognition and consideration of complexity both at the IMF and in the country. The Fund's alternative approaches to program design, its ability to determine the pace and quality of program implementation, the degree of economic adjustment necessary for the country, and the nature of the domestic political economy all determine the likelihood of program success. From this complexity arise a number of straightforward questions.

- How—and to what extent—does a program's success depend on its design?
- Why does the quality of implementation vary, and is that quality related to the commitment of country authorities to the policy reform package?
- Do different economic conditions—such as levels of external debt and reserves—influence the willingness and ability of countries, private markets, and the IMF to coordinate to achieve success?

Index Stock Imagery

Shoppers at an Istanbul bazaar. Among ongoing IMF-supported programs, Turkey's is the largest.

Moreover, where IMF-supported programs are successful, what is the basis for success? Is it the country's commitment that counts? And does the IMF's value arise from its policy advice, its lending, its monitoring of country policies, or its "seal of approval"?

On *program design,* the research underscores the value of the quality of fiscal adjustment and of achieving more accurate program projections. It finds that the accuracy of program projections hinges on better information, especially about initial conditions. Still, the authors argue that if capital account crises are to be better managed and long-term growth is to be fostered, more refined theoretical analytical frameworks are also needed.

As for why countries have had markedly different experiences with *program implementation*, the research finds that these variations reflect differences in domestic institutions and political constraints. The results are consistent with the call for greater country ownership of IMF-supported programs. The IMF's governance structure—specifically, how national authorities exercise operational control on the IMF, how the IMF is internally organized and interacts with members and the markets, and how the IMF provides uniform treatment to its member countries—may also exert an important influence on program design and implementation and, ultimately, on their effectiveness.

On *program effectiveness*, the research looks in particular at the IMF's role in helping member countries address capital account crises and in catalyzing capital flows. It suggests that if domestic taxpayers—who have borne much of the costs of capital account crises—are to be protected, IMF lending to cushion a crisis should be available mainly on the consideration that sound policies were followed before the crisis, because this will presumably reduce the pursuit of irresponsible policies. In helping countries maintain medium-term access to international capital markets, the IMF may be most effective when a member country faces significant vulnerabilities but is not yet in the midst of a crisis. The research also points to member countries' use of the IMF to signal their commitment to policy reform.

Much still to do

A richer political economy framework could open new avenues to understanding how IMF programs work. Some would argue that the IMF's own advice and financing are conditioned by political economy considerations; similarly, the domestic political economy shapes attitudes toward the IMF and, hence, the ability of the authorities to enter into constructive IMF-supported programs. The ongoing debate on the Fund's governance structure is motivated by a variety of important considerations: whatever the outcome, there will be implications for how the Fund works and its effectiveness. ■

Ashoka Mody, IMF European Department
Alessandro Rebucci, IMF Research Department

Copies of *IMF-Supported Programs: Recent Staff Research*, edited by Ashoka Mody and Alessandro Rebucci, are available for $37.50 each from IMF Publication Services; see page 160 for ordering details. The full text is also available on the IMF's website (*www.imf.org*).

HIPC debt relief (status as of May 18, 2006)

IMF member	Decision point	Completion point	Amount committed	Amount disbursed[1]
			(million SDRs)	
Heavily Indebted Poor Countries (HIPC) initiative				
Under original 1996 initiative				
Bolivia	September 1997	September 1998	21.2	21.2
Burkina Faso	September 1997	July 2000	16.3	16.3
Côte d'Ivoire	March 1998	—	16.7[2]	—
Guyana	December 1997	May 1999	25.6	25.6
Mali	September 1998	September 2000	10.8	10.8
Mozambique	April 1998	June 1999	93.2	93.2
Uganda	April 1997	April 1998	51.5	51.5
Total original HIPC			**235.3**	**218.6**
Under the 1999 enhanced HIPC Initiative				
Benin	July 2000	March 2003	18.4	20.1
Bolivia	February 2000	June 2001	41.1	44.2
Burkina Faso	July 2000	April 2002	27.7	29.7
Burundi	August 2005	Floating	19.3	0.1
Cameroon	October 2000	April 2006	28.6	33.7
Chad	May 2001	Floating	14.3	8.6
Congo, Democratic Republic of the	July 2003	Floating	228.3[3]	3.4
Congo, Republic of	March 2006	Floating	5.6	—
Ethiopia	November 2001	April 2004	45.1	46.7
Gambia, The	December 2000	Floating	1.8	0.1
Ghana	February 2002	July 2004	90.1	94.3
Guinea	December 2000	Floating	24.2	5.2
Guinea-Bissau	December 2000	Floating	9.2	0.5
Guyana	November 2000	December 2003	31.1	34.0
Honduras	June 2000	April 2005	22.7	26.4
Madagascar	December 2000	October 2004	14.7	16.4
Malawi	December 2000	Floating	23.1	11.6
Mali	September 2000	March 2003	34.7	38.5
Mauritania	February 2000	June 2002	34.8	38.4
Mozambique	April 2000	September 2001	13.7	14.8
Nicaragua	December 2000	January 2004	63.5	71.2
Niger	December 2000	April 2004	31.2	34.0
Rwanda	December 2000	April 2005	46.8	50.6
São Tomé and Príncipe	December 2000	Floating	—[4]	—
Senegal	June 2000	April 2004	33.8	38.4
Sierra Leone	March 2002	Floating	98.5	66.0
Tanzania	April 2000	November 2001	89.0	96.4
Uganda	February 2000	May 2000	68.1	70.2
Zambia	December 2000	April 2005	468.8	508.3
Total enhanced HIPC			**1,628.2**	**1,401.5**
Combined total			**1,863.5**	**1,620.1**

Definitions

Decision point: Point at which the IMF decides whether a member qualifies for assistance under the HIPC Initiative (normally at the end of the initial three-year performance period) and decides on the amount of assistance to be committed.

Completion point: Point at which the country receives the bulk of its assistance under the HIPC Initiative, without any further policy conditions. Under the enhanced HIPC Initiative, the timing of the completion point is linked to the implementation of preagreed key structural reforms (that is, floating completion point).

[1]Includes interest on amounts committed under the enhanced HIPC Initiative.

[2]Equivalent to the committed amount of $22.5 million at decision point exchange rates for March 17, 1998.

[3]Amount committed is equivalent to the remaining balance of the total IMF HIPC assistance of SDR 337.9 million, after deducting SDR 109.6 million representing the concessional element associated with the disbursement of a loan under the Poverty Reduction and Growth Facility following the Democratic Republic of the Congo's clearance of arrears to the IMF on June 12, 2002.

[4]At the time of its decision point, São Tomé and Príncipe did not have any eligible debt to the IMF.

Data: IMF Finance Department.

Progress on development efforts welcomed, but more needs to be done

Following the IMF–World Bank Spring Meetings, finance ministers attended the special high-level dialogue of the UN Economic and Social Council (ECOSOC) on April 24 in New York, with the IMF, the World Bank, the World Trade Organization (WTO), and the United Nations Conference on Trade and Development. IMF Deputy Managing Director Agustín Carstens reported to the plenary on the outcomes of the International Monetary and Financial Committee meeting. The ECOSOC meeting considered progress in implementing the Monterrey Consensus on financing for development and the outcomes of the 2005 UN World Summit.

UN Secretary General Kofi Annan noted that the 2005 UN summit had advanced development efforts worldwide, including on aid and debt relief. Member states pledged to adopt by end-2006 comprehensive national development plans for achieving the Millennium Development Goals (MDGs). These plans should build on existing efforts, including Poverty Reduction Strategy Papers, and focus on measurable results.

But more needs to be done, he said, expressing concern about the lack of progress in the Doha Round of trade negotiations. He urged leaders to deliver on the ambitious deadlines set at last December's WTO ministerial meeting in Hong Kong and stressed that the Aid for Trade initiative should be implemented promptly and fully funded.

Participants discussed a range of related issues in topical roundtables.

National development strategies. Participants said that countries should develop a single national strategy using existing mechanisms that integrated various elements of development and international commitments, such as the MDGs and trade policy. Strategies should be country-owned and reflect each country's specific conditions. Although domestic resource mobilization is important, participants stressed the need to increase the level and effectiveness of aid and to align it with countries' priorities.

Doha work program and aid for trade. Participants agreed that a successful Doha Round would increase countries' opportunities to accelerate and sustain growth and reduce poverty, and speakers stressed the importance of making speedy progress. They welcomed the Aid for Trade initiative but stressed that it must not substitute for actual trade liberalization and progress in the trade negotiations. The initiative should provide stable, predictable, and nonconditional financing for capacity building and trade and should be in addition to other forms of development assistance.

Eskinder Debebe/United Nations

Agustín Carstens (center) reports to the ECOSOC plenary.

Debt sustainability. Participants recognized that adequate economic growth—supported by good governance, transparency, and a conducive business environment—is crucial for avoiding unsustainable debt. Many speakers cautioned that borrowing countries should pursue sound debt management strategies and that lenders should adhere to good lending practices. Participants encouraged the international community to better assess the risk of debt distress and propose policies to minimize such risks. Debt relief should supplement, and not substitute for, aid.

Supporting middle-income developing countries. Participants noted the diversity in the level of economic development and size of middle-income countries and pointed out that some had problems similar to those of low-income countries. Middle-income countries require individual analysis and suitable assistance from the international community. Some speakers supported the development of new instruments, as well as increased policy space to pursue countercyclical measures. Efforts to improve the level of private investment, the development of public-private partnerships, and good governance were also highlighted. ■

Jones Morco and Patrick Cirillo
IMF Secretary's Department

Laura Wallace
Editor-in-Chief

Sheila Meehan
Managing Editor

Elisa Diehl
Production Manager

Jeremy Clift
Christine Ebrahim-zadeh
Senior Editors

Ina Kota
Assistant Editor

Maureen Burke
Lijun Li
Senior Editorial Assistants

Kelley McCollum
Senior Production Assistant

Julio Prego
Graphic Artist

Graham Hacche
Senior Advisor

The *IMF Survey* (ISSN 0047-083X) is published in English, French, and Spanish by the IMF 22 times a year, plus *IMF in Focus.* Opinions and materials in the *IMF Survey* do not necessarily reflect official views of the IMF. Any maps used are for the convenience of readers, based on *National Geographic's Atlas of the World,* Sixth Edition; the denominations used and the boundaries shown do not imply any judgment by the IMF on the legal status of any territory or any endorsement or acceptance of such boundaries. Text from the *IMF Survey* may be reprinted, with due credit given, but photographs and illustrations cannot be reproduced in any form. Address editorial correspondence to Current Publications Division, Room 7-106, IMF, Washington, DC 20431 U.S.A. Tel.: (202) 623-8585; or e-mail any comments to imfsurvey@imf.org.

To request an *IMF Survey* subscription ($120.00 annually for private firms and individuals) or IMF publications, please contact IMF Publication Services, Box X2006, IMF, Washington, DC 20431 U.S.A. Tel.: (202) 623-7430; fax: (202) 623- 7201; e-mail: publications@imf.org. The *IMF Survey* is mailed first class in Canada, Mexico, and the United States, and by airspeed elsewhere.