Under the fixed exchange rate mechanism of the CFA system, a country can hardly conduct an independent monetary policy. After 1994 when the devaluation took place, Côte d'Ivoire was able to initiate a *de facto* inflationary policy, and the economy started to grow. Because of our use of the U.S. dollar term for calculating a proxy for the real dollar value of GDP, the improvement of dynamic indicators, REDB and DDI, are exaggerated in 1993. This example casts some doubt on the view, sometimes shared by the Fund, that price stability is always good. Under certain circumstances, as in Cote d' Ivoire in the early 1990s, an inflationary policy is useful. By allowing or encouraging the devaluation, the Fund in fact supported such a reflationary policy.

Malawi

We begin by reviewing the external viability indicators. The trade account was in a small surplus until 1992, but it turned to a deficit after that; the current account was in deficit. The debt service burden was reduced from 60 percent of exports in 1986 to 22.5 percent in 1995. As far as the debt service is concerned, the situation seems to be improving. In 1995, the outstanding debt was $2,148 million, the NPV was $1,135 million. These were 509.1 percent and 289.2 percent of exports, respectively.

All the indicators of external viability showed steady movements (see "Several Indicators for External Debt, Malawi") until 1993. In 1993, the economic growth rate fell so that REDB and DDI went up sharply. In spite of the improvement in the level of the Debt Service Ratio, the relative magnitude of Malawi's debt to GDP grew fast due to Malawi's slow GDP growth and the current account deficit. In general, Malawi's external position appears to have been managed rather well.

However, there is a contrast between the declining debt service ratio and other rising indicators. Among the dynamic indicators, the most comprehensive DDI shows a sharp rise. This casts doubt as to whether or not the ESAF helped the external viability of Malawi. It also offers another explanation as to why relying solely on the Debt Service Ratio could be misleading. If the Fund overemphasizes the static indicator such as the debt service ratio or the debt service/GDP ratio, the dynamics of debt in a growth process will
be neglected.

Several Indicators for External Debt, Malawi
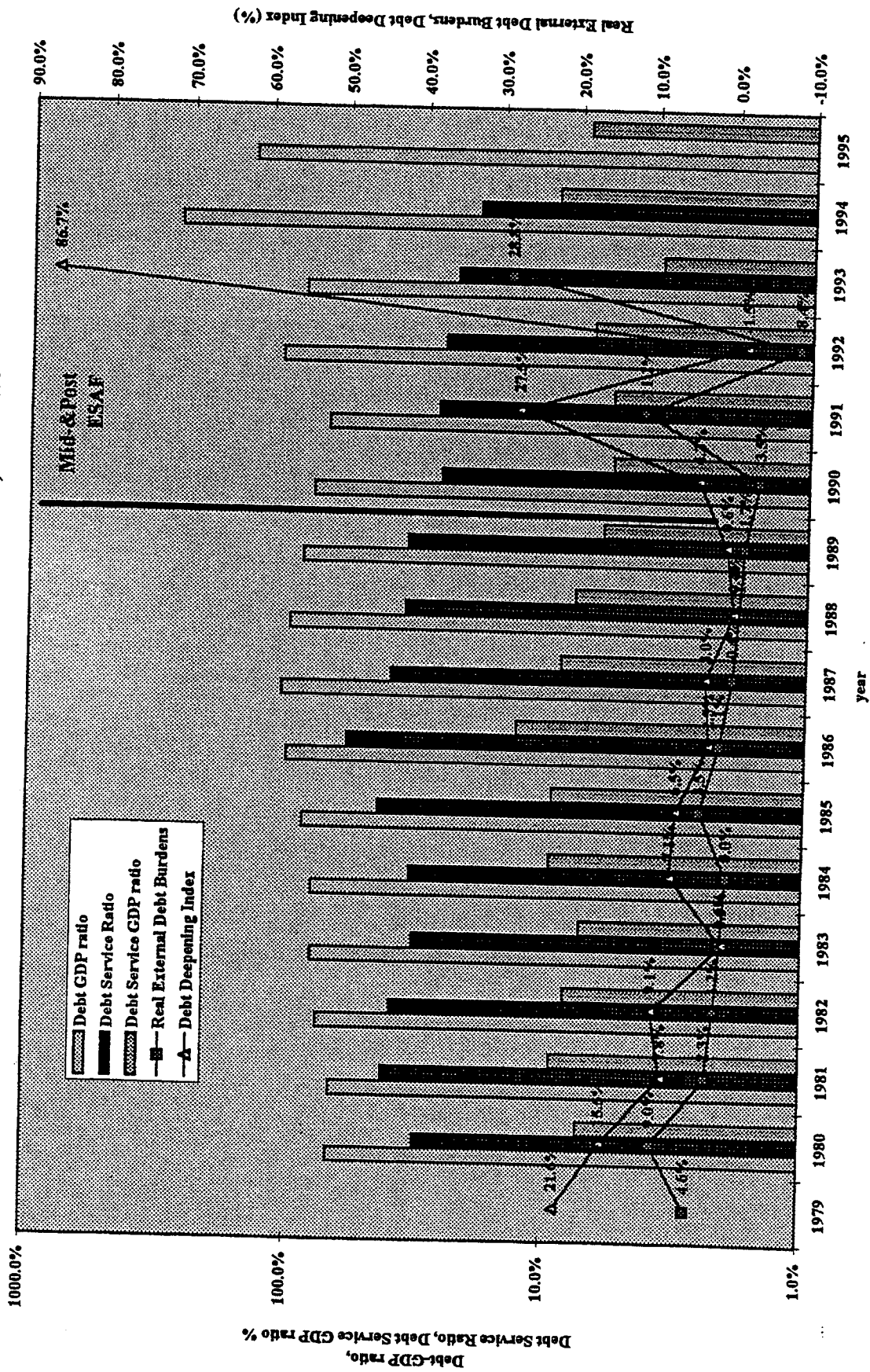
Uganda

Uganda has come out of a difficult and protractor period of internal conflict. The economy has been stabilized since 1989, thanks to the adoption of a cash budget. The economy started real growth after the trough of 1986 and was able to sustain its pace. The level of real GDP per capita is now approaching the level of its pre-war peak.

One characteristic of Uganda's economy is that it is quite a self- sufficient economy. Export/GDP ratios are less than 10 percent. Another characteristic is that Uganda is growing relatively quickly among African countries. These characteristics imply two things. First, not only export-related indicators but also GDP related indicators should be considered. All the export-related measures such as the debt service ratio and the debt export ratio are relatively high, while the GDP measures such as the debt service/GDP ratio and debt/GDP ratio indicate a rather healthy situation. The use of export-related measures will present Uganda as a country more vulnerable than it actually is.[29]

From the viability indicators (Statistical Table, pages 20 and 21), it is hard to tell if the ESAF functioned well after 1988. Debt Service Ratios went up until 1991 but they have been decreasing ever since then. REDB and DDI have been falling sharply since 1993 and 1991 respectively. Thus, these dynamic indicators fell, that is, improved since 1993. (See "Several Indicators for External Debt, Uganda" on the following page.) Thus, the ESAF does not necessarily improve the viability situation at first. However, after 1993, the economy is on the right track. This shows the burden of debt was already winding down even before it was selected as the number one HIPC initiative country.

Since the Ugandan economy is relatively closed because of the relatively self-sufficient production structure, the export/GDP ratio is smaller in Uganda than many African countries considered here. The debt service ratio is large and accordingly, Uganda is treated relatively favorably in its designation as a HIPC country although its indebtedness is subsiding.

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[29]Of course, we do recognize the merit of self-centered development. Development of domestic markets that sustain growth are something to be encouraged, if possible; in a fast-growing country such as Uganda, reference to dynamic indicators that reflect growth is essential.

Several Indicators for External Debt, Uganda
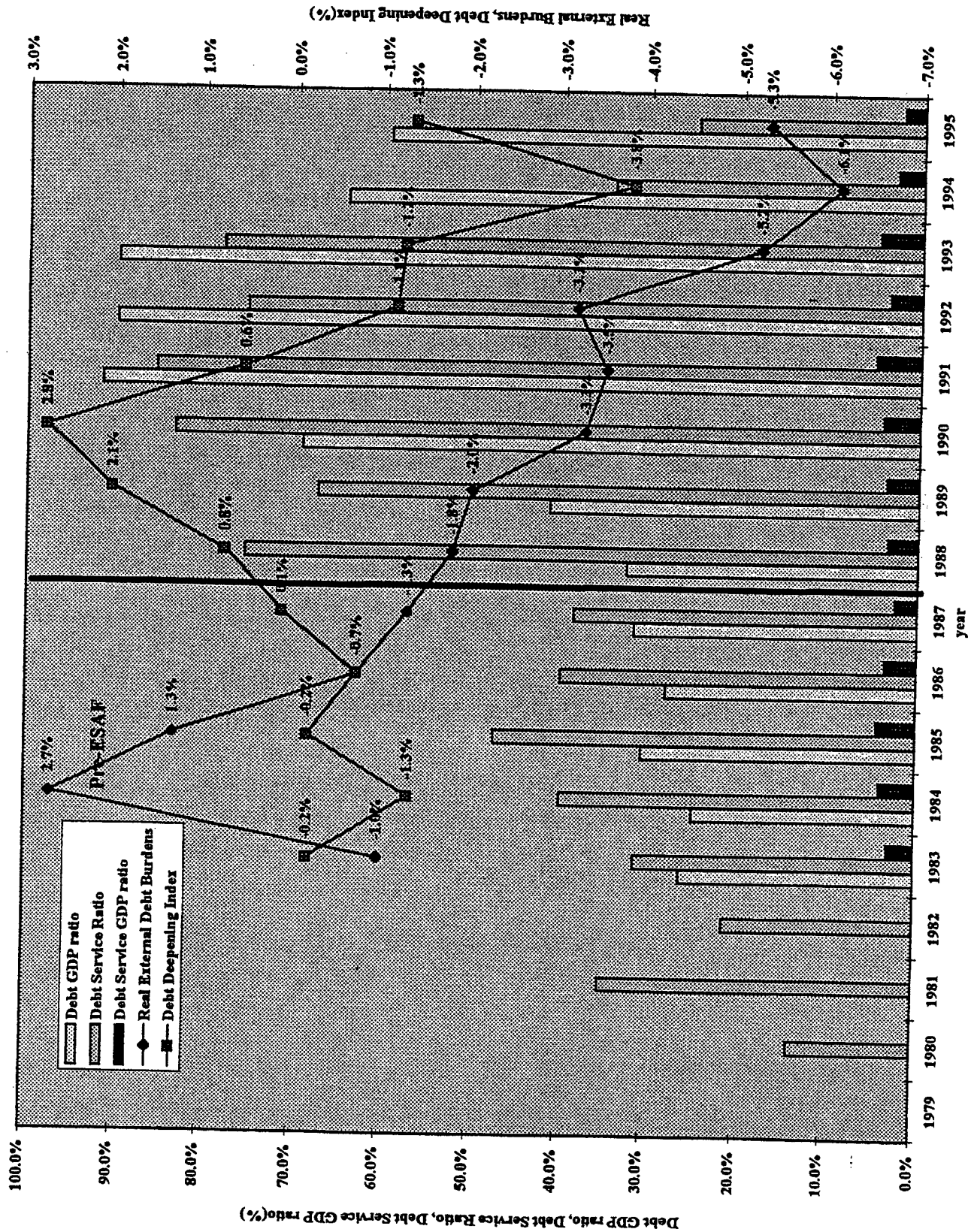
Vietnam

Since the announcement of the Doi Moi policy in December 1986, Vietnam has been trying to transform a centrally-planned economy to a market-oriented economy. Although the conceptual meaning of Doi Moi used in the Congress's decision at that time has little to do with the abandonment of socialism in favor of capitalism, the new policy has had drastic effects on the economic system. The principal driving forces in capital accumulation and in resource allocation have shifted from the government-prepared, command-style economic planning to something midway on the road to the free interplay of market forces. This change has been reinforced by the obligation to meet the conditionalities for financial support set out by the World Bank and the Fund.

In Vietnam, we see steady growth in the export/GDP ratio (Table 1: 30.5 percent-35.2 percent) and worsening of trade balance deficits as a result of extraordinary import growth (Table 2: 30.4 percent-44.4 percent). The export surge was almost entirely sustained by primary goods such as crude oil, rice, fish and shrimp. The sharp increase in import was accelerated significantly by trade liberalization, such as the reduction in tariffs and elimination of import shipment licenses. Another factor that strengthened this import growth was the increase in the FDI. The FDI stimulated the import of intermediate goods and capital goods, and the import of consumer goods increased as well. So long as flows of FDIs are driven by market forces, the financing of the current account by FDIs hardly presents any problems.[30]

The current account (CA) deficit also grew (Table 3: 4.3 percent-8.5 percent), parallelling the expansion of trade balance (TB) deficit. Most parts of the CA deficit have been financed by FDI and Official Development Assistance (ODA). In order to reduce this imbalance, the Vietnamese government has attempted to impose restrictions on imports by limiting the issuance of letters of credit (L/C).

Another feature related to the external sector is the enormous outstanding external debt, although the proper statistical treatment of Ruble-denominated debt leaves room for discussions. The ratio of debt to GDP was improving (Table 3: 296.8 percent-148.1 percent). It remains a question as to whether this improvement is good enough.

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[30] Another question remains as to whether the composition of FDIs is desirable or not. We hear the concern, for example, that FDIs in automobile factories are excessive.

Table 1

Comparison Pre-Adjustment and Mid-Adjustment by Macro Key Indicators

	Pre-adjustment (87-93)		Mid-adjustment (94-95)	
	Sample	Mean	Sample	Mean
Real GDP Growth Rate	89-93	7.3%	94-95	9.2%
Investment/GDP	90-93	18.2%	94-95	26.3%
Inflation(CPI)	87-93	117.5%	94-95	13.4%
Government Deficit/GDP	89-93	-6.4%	94-95	-1.9%

Note: All the above figures are calculated based upon the data from IFS.

Table 2

Trends in Nominal GNP Per Capita (1992-95)

	1992	1993	1994	1995
GNP Per Capita (US$)	142	181	214	275
Growth Rate (%)	---	27.1%	18.5%	28.5%

Note:
The above figures are calculated based upon the data from IFS and Global Development Finance (1997).

Table 3

External Sector Developments

	Pre-Adjustment (87-93)		Mid-Adjustment (94-95)	
	Sample	Mean	Sample	Mean
Export/GDP	91-93	30.5%	94-95	35.2%
Import/GDP	91-93	30.4%	94-95	44.4%
Current Account/GDP	89-93	-4.3%	94-95	-8.5%
External Debt Stock/GDP	89-93	296.8%	94-95	148.1%

Note: (1) All the figures are calculated based on the data from IFS, Global Development   Finance.
(2) CA includes official transfers.
(3) External debt stock is defined as the sum of public and publicly guaranteed long-term debt, private
non-   guaranteed long-term debt, the use of IMF credit, and short-term debt.

Table 4

Trends in the Balance of Payments (1988-1995, Unit: Million of US$)

	Export	Import	Trade Balance	Current Balance	CA/GDP Ratio (%)	Foreign Reserve
1988	733	1,412	- 679	- 747		
1989	1,320	1,670	- 350	- 584	-9.2%	
1990	1,731	1,772	- 41	- 259	-4.1%	
1991	2,042	2,105	- 63	- 133	-2.3%	27
1992	2,475	2,535	- 60	- 8	-0.1%	465
1993	2,985	3,532	- 547	- 765	-6.0%	404
1994	4,054	5,244	-1,190	-1,197	-7.7%	876
1995	5,198	7,543	-2,345	-1,868	-9.3%	1,376

Note: (1) Current Account includes Official Transfer.   (2) Foreign Reserve includes gold.
Source: International Monetary Fund

Several Indicators for External Debt, Vietnam
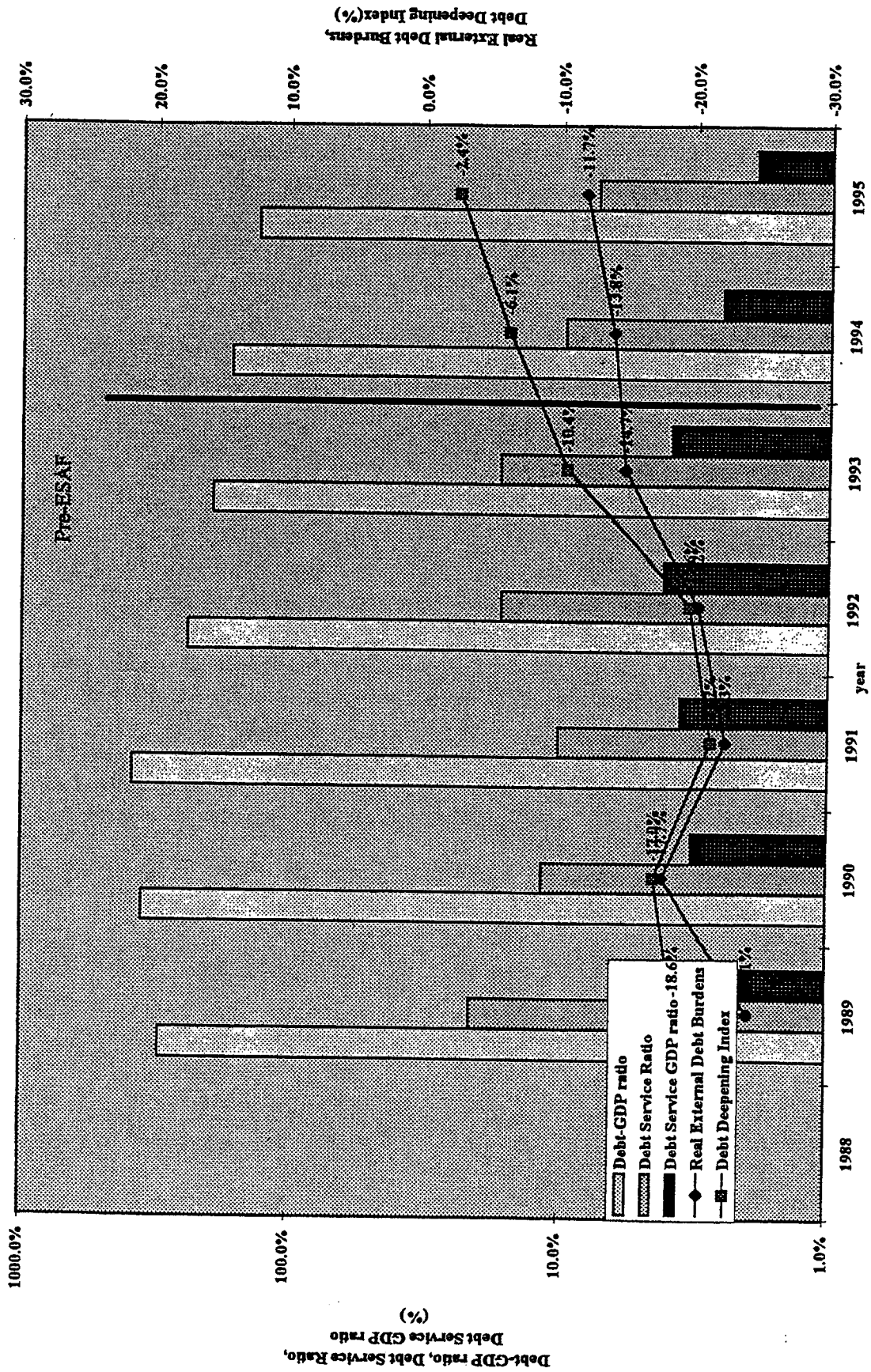
Zimbabwe

In historical perspective, Zimbabwe was a country that acumulated wealth and a sound infrastructure.   It was a country that has not had its external debt re-scheduled. However, two recent droughts (1992 and 1995) made steering the economy difficult, and the above mentioned intrinsic dilemma of fiscal incompatibility created difficulties in the balance of payments as well.

Statistics are not well prepared in Zimbabwe and International Financial Statistics has many blank items for Zimbabwe. The macroeconomic picture is not very encouraging. Real growth is severely disrupted by droughts, though the tentative 1996 figures seem promising. Inflation has been running at more than twenty percent in most recent years.

The current account balance was affected negatively in the drought years, but that is accounted for by the consumption smoothing motives. Outsiders, including the Fund, should show understanding when adverse shocks hit a country, although, of course, it is true that fiscal rigidities can exacerbate the difficulty created by such external conditions.

Most of Zimbabwe's external viability indicators were worsening when the ESAF program was adopted. See "Several Indicators for External Debt, Zimbabwe". Subsequently, some indicators showed improvement, but their levels in 1995 are not very encouraging. The lack of growth in the present causes a problem in REDB and DDI. The lack of the future prospect for growth gives a pessimistic picture for the future. Incidentally, since smoothing consumption is a natural concern of events, the Fund could be relatively tolerant about the development in the balance of payments current account, due to droughts.

Several Indicators for External Debt, Zimbabwe
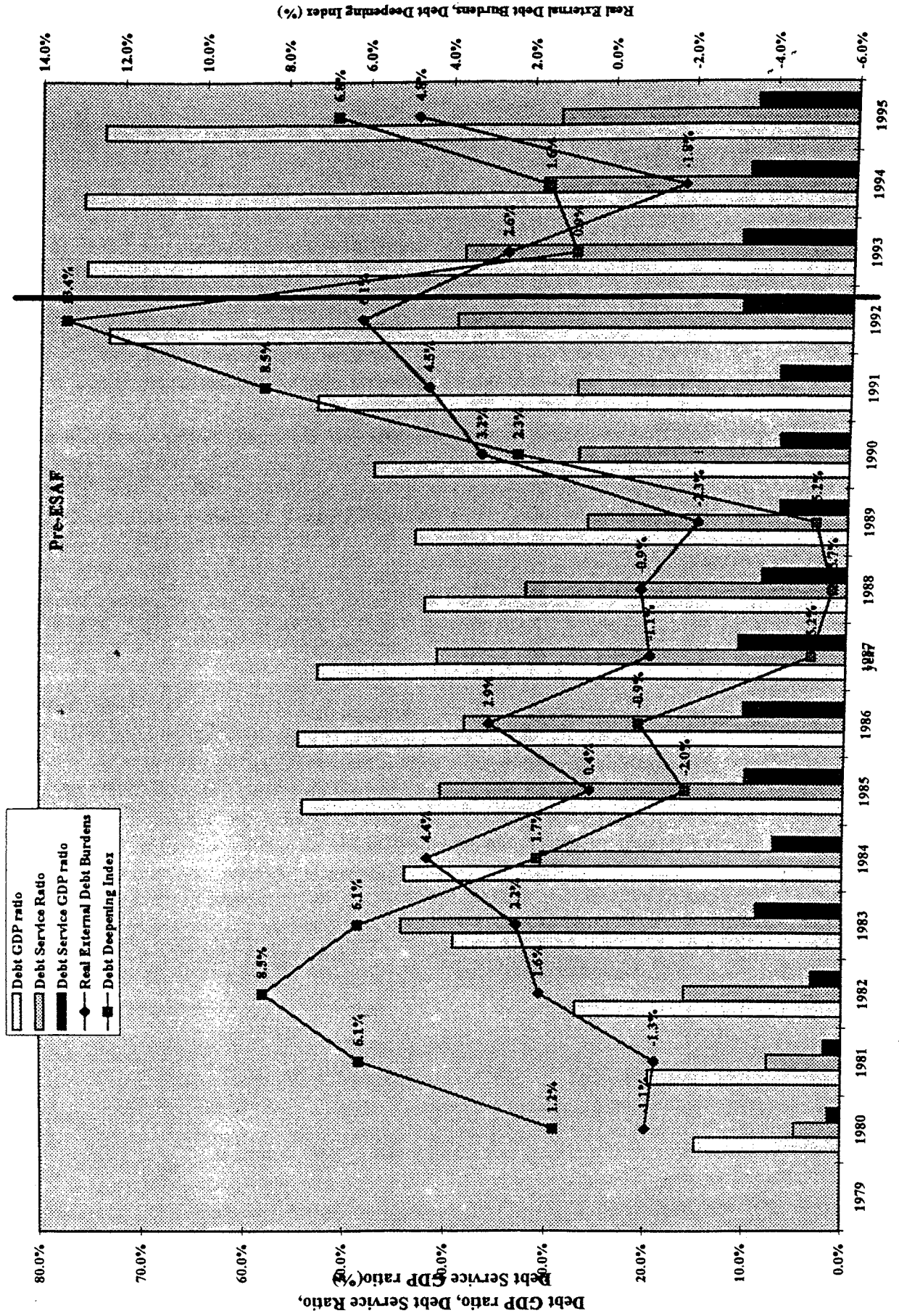
Summing Up International Comparisons

In short, the basic difficulty in presenting a viability measure is that our observations are limited to the past and present while we would like to compare the present value of future liabilities with the present value of capacity to pay in the future. Indicators such as debt service ratio to REDB, DDI are measures of (instantaneous) flow variables. The latter two consider rate of growth, but only the instantaneous rate of growth. NPV of debt considers the future courses of debt payments, but one has difficulty matching it with the present value of potentially capable payments. Finally, "Comparison of Some External Debt Indicators Among 6 ESAF Countries" illustrates the effect of indicators for six countries and presents examples of how those indicators offer different views of the debt problem.

In the pre-ESAF period, most indicators roughly move together. In terms of debt service ratios, Vietnam and Malawi are ranked as the two best (lowest), and Uganda is ranked as the worst (highest) in the mid-post ESAF period. In terms of debt-service/GDP ratio, on the other hand, Bangladesh and Vietnam are the two best countries and Zimbabwe and Côte d'Ivoire are the two worst. According to the debt/GDP ratio, Bangladesh and Zimbabwe are the two lowest and Côte d'Ivoire is the highest.

In terms of REDB that captures the debt dynamics in growth, Vietnam and Côte d'Ivoire are the lowest, and Malawi, Zimbabwe and Bangladesh are the worst. This reflects the stagnant nature of the Malawian economy. Finally, according to the most comprehensive index here (DDI), Côte d'Ivoire and Vietnam are the best (lowest), and Malawi is the worst (highest). This comparison shows that judging from a single index such as the debt service ratio can be quite misleading.

Comparative Analysis for External Viability
(Pre- and Mid-&Post- ESAF)

	Debt Service ratio 1/		Debt Service GDP ratio 2/	
	pre-ESAF	mid-&post-ESAF	pre-ESAF	mid-&post-ESAF
Bangladesh	31.5%	34.0%	2.0%	2.7%
Vietnam	15.3%	8.6%	3.9%	2.2%
Cote d'Ivoire	53.9%	35.1%	16.4%	13.5%
Malawi	39.5%	24.7%	8.7%	6.5%
Uganda	33.3%	65.5%	3.4%	3.6%
Zimbabwe	28.7%	33.0%	7.1%	10.5%
Average	33.7%	33.5%	6.9%	6.5%

	Debt Export ratio 3/		Debt GDP ratio 4/	
	pre-ESAF	mid-&post-ESAF	pre-ESAF	mid-&post-ESAF
Bangladesh	662.4%	708.0%	41.7%	58.5%
Vietnam	1131.9%	570.2%	296.8%	148.1%
Cote d'Ivoire	452.8%	545.4%	132.4%	210.8%
Malawi	395.3%	457.8%	85.9%	129.6%
Uganda	314.6%	1178.3%	28.0%	67.2%
Zimbabwe	175.0%	235.6%	43.3%	75.1%
Average	522.0%	615.9%	104.7%	114.9%

	Real External Debt Burdens 5/			
	pre-ESAF	r=8% 6/	mid-&post-ESAF	r=8% 6/
Bangladesh	-0.6%	1.8%	-1.5%	2.3%
Vietnam	-19.8%	3.0%	-12.7%	-1.7%
Cote d'Ivoire	7.2%	8.5%	-14.1%	-2.4%
Malawi	2.1%	5.0%	3.2%	10.0%
Uganda	0.2%	1.3%	-3.8%	0.6%
Zimbabwe	1.4%	2.1%	1.9%	4.1%
Average	-1.6%	3.6%	-4.5%	2.2%

	Debt Deepening Index 7/	
	pre-ESAF	mid-&post-ESAF
Bangladesh	2.6%	-1.3%
Vietnam	-17.4%	-4.3%
Cote d'Ivoire	7.7%	-18.3%
Malawi	7.3%	15.3%
Uganda	-0.5%	-0.2%
Zimbabwe	2.2%	3.1%
Average	0.3%	-1.0%

(Source)
Author's calculation based upon IFS, Recent Economic Development, World Debt Tabel and Global Development Finance.

(Note)
1/ Debt Service ratio = (interest payment + pricipal repayment) / export
2/ Debt Service GDP ratio = (interest payment + pricipal repayment) / GDP
3/ Debt Export ratio = debt stock / export
4/ Debt GDP ratio = debt stock / GDP
5/ Real External Debt Burdens = (real interest rate- growth rate of GDP) * debt stock / GDP
6/ Obsfeld(1996) uses a real interest rate of 8 percent, and states that the rate of return on equities is probably a better approximation.
7/ Debt Deepening Index= (real interest rate- growth rate of GDP) * debt stock / GDP + CA deficit excluding interest payment / GDP