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In This Issue

Editor's Note

This issue marks the departure of *IMF Research Bulletin's* editor Paolo Mauro, who wishes to thank all contributors to the *Bulletin* over the past couple of years. Special thanks go to assistant editor, Archana Kumar; systems consultant, Kellett Hannah; and compositor, Choon Lee. Taking the baton from Paolo, I look forward to maintaining continuity and building on my predecessor's outstanding work on the *Bulletin*. At the same time, I welcome all suggestions from the readers.

—Tito Cordella

Research Summaries

Fiscal Rules

Eduardo Ley

In the past decade, several countries—often reacting against the deterioration of their public finances—have adopted rules constraining the extent of discretionary fiscal policy to correct for the deficit bias. This article summarizes recent IMF research on the potential benefits of rules-based fiscal policy frameworks to enhance policy credibility and fiscal sustainability.

George Kopits and Steven Symansky (1998) define a fiscal policy rule as a permanent constraint on fiscal policy, expressed as a summary indicator of fiscal performance, such as the government budget deficit, borrowing, debt, or a major component thereof. They argue that the strongest case for fiscal rules is based on political economy arguments that the rules correct the bias of short-sighted governments to accumulate public debt at the expense of future generations and that avoiding time-inconsistency issues results in significant credibility gains. These benefits must be weighed against the loss of discretion. Kopits and Symansky also identify a list of characteristics for ideal fiscal rules—the now classic Kopits-Symansky (K-S) criteria—which dictates that an ideal fiscal rule should be well-defined, transparent, simple, flexible, adequate relative to the final goal, enforceable, consistent, and supported by sound policies, including structural reforms if needed. *(continued on page 2)*

Financial Development in Low-Income Countries: Old Questions or New Problems?

Thierry Tressel

Over the last few decades, many low-income countries (LICs) have liberalized their highly repressed financial systems. Financial reforms have led to the elimination of interest rate controls and directed credits, and to the introduction of indirect instruments of monetary policy. However, limited access to financial services remains a pervasive phenomenon in low-income countries. This paper selectively surveys recent IMF research on the development of financial systems in low-income countries, including LICs' experience with financial liberalization, the determinants of financial reform, the relationship between financial deepening and growth, and the factors explaining the lack of access to formal finance. *(continued on page 5)*

Fiscal Rules *(continued from page 1)*

Kell (2001) evaluates the two fiscal rules introduced in the United Kingdom in 1997—a golden rule and a debt rule—against the K-S criteria. Although Kell concludes that U.K. fiscal rules broadly measure up strongly against the K-S ideal characteristics, he also identifies room for improvement—by simply clarifying the benchmarks and objectives—in the policy framework. Moreover, Kell argues that the discrepancy between the two rules and medium-term fiscal plans could undermine the credibility of the fiscal policy framework.

Drawing on international experience, Kopits (2001) reexamines the merits for and against fiscal rules. He identifies three broad lessons. First, governments with a strong reputation for fiscal prudence do not need to be constrained by rules. Second, in countries that lack such a reputation, fiscal rules can indeed provide a useful policy framework that is conducive to stability and growth. Third, to enhance their usefulness, fiscal rules need to meet the K-S criteria at the both national and subnational levels.

Dabán and others (2003) study the design of rules-based fiscal frameworks in the four largest economies in the euro area—France, Germany, Italy, and Spain. They argue that, to avoid procyclicality, the four countries would benefit from incorporating spending rules on deficit and debt targets. Their paper advocates binding spending rules consistent with medium-term debt targets while allowing cyclical revenue fluctuations to affect the budget balance. Dabán and others review implementation issues and suggest that fiscal rules be embedded in medium-term macroeconomic frameworks, applied to the general government, and use comprehensive expenditure targets. On real versus nominal rules, their paper points out that nominal rules may be preferable in countries where cyclical stabilization is a priority, while real rules may be more appropriate when there are automatic indexation clauses for significant expenditures (e.g., entitlements).

Tanner (forthcoming) uses numerical simulations to compare three fiscal regimes: a pure tax-smoothing regime, a balanced-budget rule regime, and a regime in which the government runs primary deficits and accumulates debt in the present. On introducing two sources of uncertainty—output uncertainty and random "sudden stops" to foreign capital flows—Tanner finds that the tax-smoothing regime is preferable to the balanced-budget rule because tax rates have about the same average but are less variable. Also, although over an infinite horizon the economy clearly gains by moving from a deficit regime to a balanced-budget rule, over shorter horizons the issue is not as clear-cut. Under the deficit regime, policymakers can give current constituents their "tax-break," but only at the expense of higher tax rate variability: in the event of a credit cutoff, the country must undertake a sharp fiscal adjustment. The simulations conducted by Tanner suggest that the cross-regime trade-offs between higher average tax rates and less dramatic fiscal adjustments may be substantial. He finds that, even in the short run, taxpayers might accept higher taxes in return for a steadier fiscal policy. Basci, Fatih, and Yulek (2004) also use numerical simulations to compare the performance of a variable-surplus rule with a simple fixed-surplus rule. They find that the variable-surplus rule—defined as an increasing function of the debt ratio—performs better than the simple fixed-surplus rule, by reducing debt sustainability concerns and the necessary medium-term primary surplus (Ley, 2004).

When is compliance with a fiscal rule just an illusion? To address the issue of whether fiscal rules lead to genuine fiscal adjustments or simply encourage the use of "creative accounting," Milesi-Ferretti (2003) develops a model in which fiscal rules are imposed on "measured" fiscal variables, which can differ from "true" variables. In addition to the standard trade-off between deficit bias and margin for cyclical stabilization, he emphasizes a second trade-off between costly window dressing and real fiscal adjustment, relating it to the degree of transparency of the budget. In other words, rules that are imposed when the budget is not transparent yield more creative accounting and less fiscal adjustment. Milesi-Ferretti and Moriyama (2004) examine the degree to which reduction in government debt in EU countries has been more cosmetic—that is, accompanied by a decumulation of government assets—than structural. They find a strong correlation between changes in government liabilities and government assets in the run-up to the Maastricht Treaty.

However, fiscal rules may impose severe constraints on governments willing to undertake structural reforms with associated up-front costs. Beetsma and Debrun (2004) analyze the trade-off between short-term stabilization and long-term growth, and—in the context of the euro area's Stability and Growth Pact—they find that sometimes fiscal rules may need to be relaxed for countries that are actively pursuing much-needed structural reforms.

The essays in Kopits (2004) explore various aspects of rules-based fiscal policy in emerging markets. In the foreword to the edited collection, IMF Deputy Managing Director Agustín Carstens warns that "a major unifying theme is the sober and balanced assessment which helps counter the unrealistic view (popular in some quarters) that policy rules automatically insure fiscal sustainability and macroeconomic stability." The first part of the book reviews the macroeconomic setting and rationale for rules-based policies in emerging markets, taking into account relevant political economy aspects. Drazen (2004) examines how properly designed fiscal rules can be a useful means for building reputation and can serve as a disciplining device, as long as they are accompanied by various procedural rules—including those that prevent creative accounting practices. Hausmann (2004) observes that emerging market economies would benefit from fiscal rules that aim not only at eliminating deficits and reducing debt ratios but also, more importantly, at containing the risk in the composition of the debt. Perry (2004) argues that Latin American economies—subject to high macroeconomic volatility, which is often aggravated by the procyclical stance adopted under various fiscal adjustment programs—ought to follow a rule that incorporates a countercyclical stance through a structural balance target or a stabilization fund. The openness of emerging market countries to high capital mobility, according to Kopits (2004), underscores the case for predictable time-consistent macroeconomic policies and, in particular, for well-designed fiscal policy rules. Nonetheless, fiscal rules by themselves do not guarantee sound fiscal management. Schick (2004) emphasizes the critical role of political will in the success of any fiscal policy rule, when supported by appropriate procedural rules. He notes that the recent literature on fiscal institutions and budgetary process neglects political will and fails to distinguish between formal rules and informal practices. Schick identifies innovations in budget procedures that are conducive to strengthening political will and enforcement of rules. Several other papers in the second and third sections of *Rules-Based Fiscal Policy in Emerging Markets: Background, Analysis, and Prospects* are devoted to design issues at the national and subnational levels of government.

Kopits (2004) draws several lessons for policymakers from the contributed essays: (1) in emerging market countries, just as in advanced economies, fiscal rules need the support of the electorate; (2) as a corollary, although in principle it is preferable to enshrine fiscal rules in the constitution or in a high-level law, informal rules might be equally effective as long as they are backed by broad public consensus; (3) macroeconomic policy rules can be viable only if underpinned by strong procedural rules, including good practices in transparency and accountability; (4) markets have far lower tolerance for relatively high public-debt-to-GDP ratios in emerging market countries than in advanced economies; (5) in emerging market countries, fiscal rules must be designed to take into account significant macroeconomic volatility; (6) as an alternative, particularly for economies with nonrenewable resources, a commodity stabilization fund that complements limits on the budget deficit and expenditure can cushion pressures stemming from wide fluctuations in the terms of trade; (7) fiscal decentralization requires considerable care in the design and enforcement of rules; and (8) for fiscal policy rules to be credible, initiating key long-term structural reforms early on is indispensable.

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Policy Discussion Papers

Policy Discussion Paper No. 04/1
Intraregional Trade in Emerging Asia
Harm H. Zebregs

Policy Discussion Paper No. 04/2
Tax Administration and the Small Taxpayer
Parthasarathi Shome

Policy Discussion Paper No. 04/3
Issues in the Establishment of Asset Management Companies
Stefan N. Ingves, Steven A. Seelig, and *Dong He*

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Visiting Scholars, April–June 2004

Christopher Adam; University of Oxford, U.K.; 5/24/04–5/28/04
Mark Aguiar; University of Chicago; 4/19/04–4/30/04
Rajeev Ahuja; Indian Council for Research on International Economic Relations, India; 3/15/04–4/16/04
Philippe Bacchetta; Study Center Gerzensee, Switzerland; 4/12/04–4/30/04
Roel Beetsma; University of Amsterdam; 6/14/04–6/25/04
Graham Bird; University of Surrey, U.K.; 4/5/04–4/16/04
Brock Blomberg; Claremont McKenna College; 4/19/04–4/23/04, 6/14/04–6/25/04
Henning Bohn; University of California at Santa Barbara; 4/29/04–4/30/04
Edward Buffie; Indiana University; 4/26/04–4/30/04
James Cassing; University of Pittsburgh; 6/23/04–7/2/04
Jean Chateau; CEPII, France; 6/28/04–7/9/04
Daniel Cohen; Université de Paris, France; 4/28/04–4/30/04, 5/3/04–5/7/04
Douglas Diamond; University of Chicago; 6/21/04–6/23/04
Raymond Fisman; Columbia University; 4/12/04–4/16/04, 2/17/04–4/30/04
Marc Flandreau; Institut d'Etudes Politiques, France; 3/29/04–4/1/04
Jeffry Frieden; Harvard University; 5/10/04–5/14/04
Alejandro Gay; National University of Córdoba, Argentina; 3/29/04–4/30/04
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Sandra Poncet; University of Clermont-Ferrant and University of Paris XIII; 4/5/04–4/30/04
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Carmen Reinhart; University of Maryland; 11/14/03–4/30/04, 5/3/04–9/30/04
James Robinson; University of California, Berkeley; 4/27/04–4/28/04
Dani Rodrik; Harvard University; 6/24/04–6/25/04
Shanker Satyanath; New York University; 4/19/04–4/21/04, 4/22/04–4/30/04
Christopher Sims; Princeton University; 5/19/03–4/30/04
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Mehmet Tosun; University of West Virginia; 5/10/04–5/14/04
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Yishay Yafeh; Hebrew University, Israel; 6/28/04–7/2/04

Financial Development in Low-Income Countries *(continued from page 1)*

Detragiache and Ueda (2004) and Khan and Senhadji (2000) survey a large body of literature that establishes that financial development is essential for economic growth. McKinnon (1973) and Shaw (1973), who were among the first to argue that financial repression was hampering the development of low-income countries by preventing them from exploiting valuable investment opportunities, are seminal to this literature. Since the 1980s, the IMF has supported the dismantling of controls and restrictions on financial systems as part of its programs. IMF researchers have examined the state of financial systems in low-income countries, including the countries' experiences with financial liberalization.

Over the last few decades, financial liberalization has taken place worldwide, and along many dimensions (Abiad and Mody, 2003). Low-income countries have been no exception. Mehran and others (1998) explain that, by the late 1980s, sub-Saharan African countries recognized the debilitating effects of financial repression and started to liberalize their financial systems. The authors find that while substantial progress was made in the 1990s both in establishing market-based monetary policy instruments and in strengthening banking supervision, many problems remained unaddressed. According to Gelbard and Leite (1999), these problems include wide interest rate spreads, insufficient capital adequacy ratios, ineffective judicial system, and high nonperforming loans. They also find that access to credit by the private sector has not improved on average.

Why do countries decide to liberalize or repress their financial systems? Although there is little research on the political economy aspects of liberalization of financial systems in LICs, examining the experience of developed countries can shed some light on the challenges ahead. Rajan and Zingales (2003) develop a theory in which incumbents oppose financial market development because it breeds competition. Their theory helps explain the reversal of financial market development in the twentieth century. Moreover, they find that trade openness is correlated with financial deepening when the capital account is open, a finding consistent with their theory based on the politics of interest groups. Abiad and Mody (2003) study the determinants of financial reforms along six dimensions of policy reform—credit controls, interest rate controls, entry barriers, regulations, privatization, and restrictions on international financial transactions—in a sample of countries that includes several low-income countries. They find that, at relatively high levels of financial repression, IMF program conditionality appears to have a strong influence on reform, which declines thereafter, and trade openness appears to hasten reforms. They also show that financial reforms are to some extent self-sustaining. Finally, they find that balance of payments crises make reforms more likely, while banking crises have the opposite effect by triggering the nationalization of banks. Demirgüç-Kunt and Detragiache (1998) find, however, that financial liberalization in a poor institutional and regulatory environment contributes to financial fragility even while improving financial development.

Financial liberalization has fostered competition in the banking system in several countries (Dell'Arricia, 2003). In India, financial liberalization lowered intermediation costs and profitability of commercial banks, and led to a decline in industry concentration (Koeva, 2003). Barajas, Steiner, and Salazar (1999) find, in Colombia, a positive effect of financial liberalization and foreign bank entry on bank operational efficiency. Hardy and Bonaccorsi di Patti (2001) conclude that financial liberalization in Pakistan improved the welfare of depositors and led to intensified competition. Macroeconomic indicators of financial deepening, however, have improved only modestly in African countries, according to Favara

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(2003). In Sudan, reforms have not addressed systemic problems in the financial system, including bank restructuring (Kireyev, 2001). Mlachila and Chirwa (2002) document an increase in real interest rates following liberalization, which is partially attributed to high monopoly power in Malawi.

Recent research suggests that the relationship between financial deepening and growth may be more complex than generally thought. Favara (2003) finds that the link between finance and growth is weak, and concludes that finance matters only at intermediate levels of economic development. Similarly, Gaytan and Rancieres (2004) conclude that the impact of finance on growth generally increases with income levels, and that financial deepening is weakly correlated with economic growth in low-income countries. In a sample of middle- and low-income countries in the Middle East and North African region, Creane and others (2004) find no effect of financial deepening on growth, while an institutional variable is strongly significant. One potential explanation is that indicators of financial deepening may be weakly correlated with the capacity of the financial system in identifying and financing profitable projects. Abiad, Oomes, and Ueda (2004) in fact find that financial liberalization, rather than financial deepening, improves allocative efficiency. Noting these limitations, Townsend and Ueda (2001, 2003) calibrate a model for Thailand, instead of relying on growth regressions, and find that gradual financial deepening both reinforces and is reinforced by growth.

Financial systems in low-income countries are highly segmented between formal and informal lending institutions. Several factors over and above financial repression may limit the penetration of organized bank lending in poor and rural areas. Tressel (2003) develops a theory in which informal and semiformal lenders have an advantage in collecting local information that allows them to lend in environments with poor enforcement of property rights. Thus, in low-income countries, organized banking and informal lending appear to complement, rather than be substitutes for, one another, even though financial deepening is necessary for economic growth.

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Country Study

China

Thomas Rumbaugh

China's transformation into a dynamic, private sector–led economy and its integration into the world economy have been among the most dramatic global economic developments of recent decades. This article summarizes recent IMF research on key aspects of China's economy, as well as the main policy challenges that will need to be addressed for China to maintain sustained high growth and continued integration with the global economy.

China's growth performance over the past two decades has been impressive, with GDP growth averaging almost 8 percent. China now ranks as the sixth-largest economy in the world (at market exchange rates). The expansion of China's role in the world trading system has been no less remarkable, with its overall share in world trade rising from less than 1 percent in 1979 to 6 percent in 2004. Tseng and others (2003) summarize IMF research, conducted during 2000–02, on macroeconomic aspects of China's emergence over the past 20 years, including growth dynamics, financial development, foreign direct investment (FDI), state enterprise reform, and trade and exchange rate policy. More recently, an IMF Occasional Paper, *China's Growth and Integration into the World Economy: Prospects and Challenges* (Prasad and others, 2004), presents an overview of research conducted during 2003–04.

The expansion of China's international trade has been a particularly noteworthy aspect of its rising prominence in the world economy. Rumbaugh and Blancher (2004) and Prasad and Rumbaugh (2003) analyze China's rapidly growing trade and conclude that this process has been facilitated by trade reforms and the general opening of the economy leading to a surge in FDI and increased integration with the global trading system. Interestingly, they also find that the rapid expansion of China's trade thus far is not unprecedented in either its scope or speed. Other Asian economies, such as Japan, Korea, and the newly industrialized economies, were able to maintain even higher export growth rates, on average, for about a 30-year period. China's trade expansion reflects greater specialization of production within the Asian region, with China now serving as the final processing and assembly platform via which a large quantity of imports from other Asian countries go to Western countries. These changes have resulted in a shift in China's bilateral trade balances, with its increasing trade surpluses with Western industrial countries being offset by rising trade deficits with many Asian countries. China's imports from all trading partners, including developing countries, are growing rapidly (Yang, 2003), and it is now the third-largest importer of developing countries' exports after the United States and the European Union.

China experienced two recent episodes of mild deflation (1998–2000 and 2001–02) despite sustained high output growth. Kumar and others (2003) discuss this experience in their study on deflation, while Feyzioğlu (2004) discusses general price developments and shows that supply-related factors have been key determinants of price dynamics in China, especially during the deflationary episodes. Some of the supply factors are transitory, including the declines in commodity prices at the beginning of each of these episodes and restraints on administrative price increases. There are also longer-term factors on the supply side, such as productivity gains from strong investment, a series of tariff reductions, state enterprise reform, and adoption of new technologies, that continue to exert significant downward pressures on prices. A large labor surplus in rural areas and excess capacity in some state enterprises are also keeping costs and prices down. More recently, particularly in 2004, commodity prices and strong growth of monetary aggregates have supported price increases.

A great deal of debate and international attention has focused on China's exchange rate regime. China maintains a de facto fixed exchange rate regime, with the renminbi linked to the U.S. dollar within a narrow trading band. Zhongxia (2003) explores the relationship among real interest rates, the real exchange rate, and balance of payments developments and finds that significant and usually nonmonotonic interactions exist between these variables. Wang (2004) applies several techniques for estimating a currency's "equilibrium exchange rate" to China. She examines the issue from a medium-term perspective and finds a range of estimates with the results sensitive to the underlying assumptions. This research can be interpreted, therefore, as an indication that the exchange rate may not be substantially undervalued. The analysis also shows how different sources of shocks could affect the medium-term path of the exchange rate. It concludes that the currency's value will be inexorably linked to the ongoing structural reforms of the economy, including the further opening of domestic markets to foreign goods and services in line with World Trade Organization (WTO) commitments. The medium-term movement of the exchange rate will also depend on the nature and pace of liberalization of capital controls.

Fedelino and Singh (2004) analyze China's public debt and implications for fiscal sustainability. With relatively low explicit government debt and a modest budget deficit, China does not face immediate concerns of fiscal sustainability. However, the government faces a number of possible future obligations associated with potential losses in the state-dominated banking system, the future funding requirements of the pension system, and rising expenditure pressures, especially for education, health, and other social programs. The authors also analyze issues related to intergovernmental fiscal relations. Center-local fiscal relations have not been effective in reducing income disparities, and the resources available to provinces, especially the poorer ones, have not kept pace with their rising expenditure mandates. A series of working papers have discussed several aspects of fiscal relations in China. Ahmad and others (2002) assess the changing nature of relations between the provinces and the central government; Ahmad, Singh, and Fortuna (2004) discuss reform options for improving intergovernmental transfers; and Ahmad, Singh, and Lockwood (2004) focus on the impact of possible tax reforms, their distribution across provinces, and possible options for compensation. Research on China's tax system includes studies on issues related to the taxation of the financial sector (Zee and others, 2004) and on options for reforming the personal income tax (Zee and Hameed, 2004).

The fiscal implications of potential losses in the banking system underscore the urgency of financial sector reform in China. Barnett (2004) reviews bank lending practices and the dominance of state-owned banks. He also identifies the steps being taken to improve the stability of the banking system as the domestic banks prepare to face intense competition in 2006, when, under WTO accession commitments, the financial sector is opened up to foreign banks.

Many of the inefficiencies in the Chinese economy ultimately result in poor labor market outcomes. Unemployment and "underemployment" of a significant portion of the rural population remain pressing concerns as the economy adjusts to the effects of state-owned enterprise reforms and WTO accession. Brooks and Ran (2003) analyze recent labor market developments and conclude that, even with strong output growth, the unemployment problem in China is likely to worsen over the next few years because of restructuring in the rural and state enterprise sectors. Removing barriers to growth by private firms will be crucial for creating more jobs and mitigating social pressures caused by the shifting of labor from agriculture to other parts of the economy and from the state to the private sector. Further progress will also be needed in strengthening the social safety net, including the pension system, unemployment insurance, health care, and the minimum living allowance. Cheng (2003) reviews some of the economic implications of demographic trends and finds that lower fertility rates will eventually reduce the growth in labor supply over the longer term, leading to lower savings rates and lower productivity of capital.

What are the future prospects for the Chinese economy? According to recent IMF research, the rapid economic growth and trade expansion could be sustained well into the future based on China's attractiveness as a destination for FDI, a high domestic saving rate, underlying improvements in productivity stemming from reduced barriers to both internal and external trade, and significant surplus labor. However, a number of macroeconomic and structural vulnerabilities need to be addressed for this potential to be fully realized (Feyzioğlu and Wang, 2003; and Feyzioğlu, Spatafora, and Yang, 2004). Boyreau-Debray and Wei (2004) also conclude that China can continue to grow fast if barriers to internal financial integration can be reduced.

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IMF Conference Honors Michael Mussa

The IMF Research Department honored Michael Mussa's 60th birthday with a conference held on June 4–5 at the IMF's headquarters in Washington. Michael Mussa, who has made a wide, influential contribution to economic theory and empirics, served as the IMF's Economic Counsellor and Director of the Research Department from 1991 to 2001 and as a member of the President's Council of Economic Advisers from 1986 to 1988. He has also taught at the University of Chicago, the University of Rochester, the City University of New York, the London School of Economics, and the Graduate Institute of International Studies in Geneva.

During his illustrious career, Mr. Mussa extensively studied the macroeconomic problems inherent to open economies and actively contributed to the debate on economic policy design and crises prevention. His work inspired many economists in the academic world and at the IMF.

The conference began with a session on Finance, Growth, and Moral Hazard, which included the following presentations: "The Mussa Theorem" by Olivier Jeanne and Jeromin Zettlelmeyer and "Country Insurance" by Tito Cordella and Eduardo Levy-Yeyati. The second session on Economic History and Fund Problems included presentations by Stanley Engerman on "Some Historical Forecasts: On WEO-Type Chapters for 1492, 1787, and 1860" and Robert Fogel on "Reconsidering World War II Expectations of Economic Growth from the Perspective of 2004."

Although Mr. Mussa is best known for his contributions to international finance, his earliest work focused on international trade with special emphasis on the macroeffects of tariffs and the specific factor model of production. It was appropriate, therefore, that the third conference session was dedicated to trade topics and included papers by Douglas Irwin on "Causing Problems? The WTO Review of Causation and Injury Attribution in U.S. Section 201 Cases" and by Richard Clarida and Rachel McCulloch on "U.S. Trade Remedies and the Adjustment Process."

The final session concluded with presentations by two professors from Mr. Mussa's graduate career at the University of Chicago: Robert Aliber on "The Thirty-Five Most Tumultuous Years in Monetary History: Shocks and Financial Traumas" and Arnold Harberger on "The Real Exchange Rate Issues of Concept and Measurement." These papers were followed by the keynote address by Jacob Frenkel and a wine tasting and dinner.

The following presentations were made during the first session of the second day: Hans Genberg and Alexander Swoboda on "Exchange Rate Regimes: Does What Countries Say Matter?" and M. Ayhan Kose, Eswar Prasad, and Marco Terrones on "How Do Trade and Financial Integration Affect the Relationship Between Growth and Volatility?"

The final conference session concluded with Russell Boyer and Warren Young's paper on "Mundell's International Economics: Adaptations and Debates" and Nelson Mark's paper on "Learning, Monetary Policy Rules, and Real Exchange Rate Dynamics."

The conference was organized by Robert Flood. Copies of the papers are available at *http://www.imf.org/external/np/res/seminars/2004/mussa/#prg* . Transcripts of the sessions and videotapes of the entire conference are available from Rosalind Oliver (e-mail: *roliver@imf.org*).

IMF Trade Conference

On Tuesday, October 19, the IMF Research Department's Trade Unit will host a conference that addresses the implications of trade liberalization for developing countries. The conference will begin at 9 a.m. and is open to the public. It will be held in Meeting Rooms A and B at the IMF Headquarters Building, 700 19th Street, NW, Washington. Please contact Marlene George (*mgeorge@imf.org*) if you plan to attend. A summary of the conference will be published in the December 2004 issue of the *IMF Research Bulletin.*