IMFSURVEY

International Monetary Fund
VOLUME 27
NUMBER 10

May 25, 1998

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Birmingham Summit Meetings

Group of Eight Leaders Focus on Asian Crisis, Monetary Cooperation, Debt Relief Issues

Meeting in Birmingham, England, on May 15–17 for their annual summit, the leaders of the world's major industrial economies emphasized the importance of multilateral cooperation to enable all countries—particularly those at the low end of the economic and development scale—to benefit from the increasing globalization of the international economy. The key challenge, according to a communiqué issued on May 17 (see page 159) was "to ensure that the benefits of globalization are spread more widely to improve the quality of life of people everywhere." The 1998 meeting of the heads of state and government—renamed the Group of Eight to reflect Russia's first full participation in these annual summit meetings—was preceded by a meeting of the Group of Seven (Canada, France, Germany, Italy, Japan, the United Kingdom, and the United States) and the President of the European Commission on May 15.

Leaders of the Group of Eight countries and the President of the European Commission gather on May 16 outside the Western House during the Birmingham summit.

The topic of a new financial architecture in a globalized world was also addressed in London on May 8 by IMF Managing Director Michel Camdessus (see below). In his speech (Please turn to the following page)

Camdessus Discusses New Global Architecture, Ways to Strengthen Political Accountability

The following are edited excerpts of an address by IMF Managing Director Michel Camdessus at the Royal Institute of International Affairs in London on May 8.

As in the days of the Industrial Revolution, we are now at a defining moment of human history. The question before us is straightforward: *how to utilize the full potential of globalization to improve the living standards of all*—particularly the poorest—while containing the risks it entails, such as those we have seen materialize so brutally in Asia, and those at least equally pernicious, even if less spectacular, of the continuous marginalization of the poorest countries. What kind of new architecture of the global system could achieve this?

The response must be deduced from a proper analysis of the most recent crises. Contrary to what we saw during the debt crisis of the 1980s, the problems in Asia were not almost exclusively macroeconomic in nature; by and large these economies had long track records of successful economic management. In a context dramatically changed by a major realignment between the dollar and the yen, and important differences in short-term yields, three other factors helped trigger the crisis: the weakness of public and private banking and financial structures; an unsustainable accumulation of short-term financing—particularly of interbank lending—which made countries (Continued on page 161)

(Continued from front page) Camdessus outlined two organizational avenues that might be explored to enable the IMF's governors to become more actively involved in the decision-making aspects of its work.

The Group of Eight leaders reaffirmed the key role of the IMF and other international financial institutions in helping to resolve and prevent future crises. Their communiqué stressed the need for the economies most severely affected by the crisis to implement IMF-supported reform packages fully. A key lesson from the Asian crisis, the statement noted, was the importance of sound economic policy, as well as transparency and good governance. The communiqué also called on Asian countries undertaking economic reforms to ensure that the private sector plays a timely and appropriate role in crisis resolution and that steps be taken to prevent hardship for the poorest segments of their population.

Multilateral institutions have a key role to play in the new financial architecture.

Calling for a "speedy and determined" extension of debt relief for the world's poorest countries, the communiqué strongly endorsed the Heavily Indebted Poor Countries (HIPC) Initiative, launched two years ago, aimed at providing debt relief to countries pursuing economic reforms prescribed by the IMF. All eligible countries were encouraged to take the necessary policy measures to enable them to participate in the HIPC Initiative by the year 2000.

The Group of Eight communiqué addressed several other issues, including:

• *Economic and Monetary Union (EMU)*. The communiqué welcomed the European Union's decision to launch the euro, noting that the commitment of European Union countries to sound fiscal policies and continuing structural reform was key to improving growth and employment prospects.

• *Trade liberalization*. The leaders reaffirmed their strong commitment to continued trade and investment liberalization within the multilateral framework of the World Trade Organization and called on all countries to open their markets further and resist protectionism.

• *Aid to poorer developing countries*. The Group of Eight pledged themselves to a "real and effective partnership" to help the poorer developing countries, especially in Africa, develop their capacities and integrate more fully into the world economy. They agreed to provide support for the efforts of these countries to build democracy and good governance and to mobilize resources for development in support of reform programs.

Group of Seven

Immediately preceding the Group of Eight meeting, the leaders of the seven major industrial countries and the president of the European Commission met on May 15 to discuss the world economic financial situation and the challenges they face in strengthening the global financial system. Following the meeting, a statement issued by its Chair, U.K. Prime Minister Tony Blair, said that in the wake of the Asian crisis there was an urgent need to take steps to strengthen the global financial architecture to reduce the risk of such crises recurring and to produce a system more resistant to shocks when crises do occur. The Group of Seven also hailed Japan's new pump-priming package, but urged the country to resolve its bad debt problem, strengthen its financial system, and implement structural reform.

The multilateral institutions have a key role to play in the new financial architecture, the statement said, adding that the leaders attached particular importance to the following:

• *increasing transparency* by encouraging IMF members to provide more accurate and accessible financial data—for example, by subscribing to the Special Data Dissemination Standard and identifying publicly those that fail to meet the standard; welcoming the IMF's adoption of a code of good practice on transparency in fiscal policy and encouraging its promotion; and encouraging the IMF to publish more information about its members and their policies, as well as about its own decision making;

• *helping countries prepare for global capital flows* by providing advice on how best to manage orderly capital account liberalization and assisting them with the required strengthening of domestic policies and institutions; and urging the IMF to examine how to effectively monitor capital flows—particularly short-term flows—to provide information and promote market stability;

• *strengthening national financial systems* by encouraging all countries to adopt and implement the basic core principles of effective banking supervision; developing international codes and guidelines for corporate governance and accounting principles; and establishing a system of multilateral surveillance of national financial, supervisory, and regulatory systems; and

• *ensuring that the private sector takes full responsibility for its decisions* by developing a framework to ensure that the private sector plays a timely and appropriate role in the resolution of financial crises; and asking the IMF to signal that in the event of a crisis, it will be prepared to consider lending to countries that are in arrears, including in situations where debt standstills have arisen, if the debtor country adopts appropriate adjustment policies. ■

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Group of Eight Communiqué

Leaders Stress Debt Relief for Poorest Nations; Affirm IMF's Key Role in Crisis Resolution

Following are excepts of a communiqué issued Sunday, May 17 by the Group of Eight.

1. We, the Heads of State or Government of eight major industrialized democracies and the President of the European Commission, met in Birmingham to discuss issues affecting people in our own and other countries. In a world of increasing globalization we are ever more interdependent. Our challenge is to build on and sustain the process of globalization and to ensure that its benefits are spread more widely to improve the quality of life of people everywhere. We must also ensure that our institutions and structures keep pace with the rapid technological and economic changes under way in the world.

2. Of the major challenges facing the world on the threshold of the twenty-first century, this Summit has focused on three:

• achieving sustainable economic growth and development throughout the world in a way which, while safeguarding the environment and promoting good governance, will enable developing countries to grow faster and reduce poverty, restore growth to emerging Asian economies, and sustain the liberalization of trade in goods and services and of investment in a stable international economy;

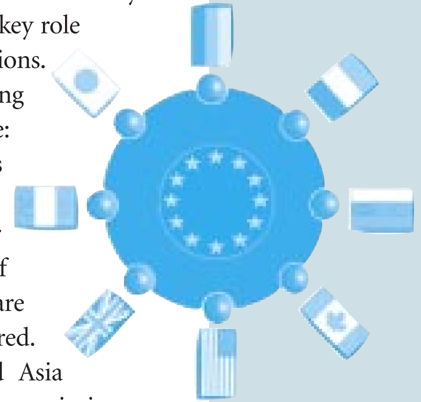
• building lasting growth in our own economies in which all can participate, creating jobs, and combating social exclusion; and

• tackling drugs and transnational crime, which threaten to sap this growth, undermine the rule of law, and damage the lives of individuals in all countries of the world.

Our aim in each case has been to agree on concrete actions to tackle these challenges.

3. In an interdependent world, we must work to build sustainable economic growth in all countries. Global integration is a process we have encouraged and shaped and which is producing clear benefits for people throughout the world. We welcomed the historic decisions taken on May 2 on the establishment of European Economic and Monetary Union (EMU). We look forward to a successful EMU which contributes to the health of the world economy. The commitment in European Union countries to sound fiscal policies and continuing structural reform is key to the long-term success of EMU and to improving the prospects for growth and employment.

4. Overall global prospects remain good. However, since we last met, the prospects have been temporarily set back by the financial crisis in Asia. We confirm our strong support for the efforts to re-establish stability and growth in the region and for the key role of the international financial institutions. Successful recovery in Asia will bring important benefits for us all. Therefore:



• We strongly support reforms under way in the affected countries and welcome the progress so far achieved. With full implementation of programs agreed with the IMF, we are confident that stability can be restored. The underlying factors that helped Asia achieve impressive growth in the past remain in place. Implementation of agreed policies, together with the action taken by ourselves and other countries to avoid spillover effects, provides the basis for a firm recovery in the region and renewed global stability.

• We believe a key lesson from events in Asia is the importance of sound economic policy, transparency, and good governance. These improve the functioning of financial markets, the quality of economic policymaking, and public understanding and support for sound policies, and thereby enhance confidence. It is also important to ensure that the private sector plays a timely and appropriate role in crisis resolution.

• We are conscious of the serious impact of the crisis in the region on the poor and most vulnerable. Economic and financial reform needs to be matched with actions and policies by the countries concerned to help protect these groups from the worst effects of the crisis. We welcome the support for this by the World Bank, the Asian Development Bank, and bilateral donors and the increased emphasis on social expenditure in programs agreed by the IMF.

• We are concerned that the difficulties could trigger short-term protectionist forces both in the region and in our own countries. Such an approach would be highly damaging to the prospects for recovery. We resolve to keep our own markets open and call on other countries to do the same. We emphasize the importance for the affected countries of continued opening of their markets to investment and trade.

5. Looking ahead to the World Trade Organization (WTO)'s celebration of the fiftieth anniversary of the founding of the General Agreement on Tariffs and Trade (GATT) next week, we:

• reaffirm our strong commitment to continued trade and investment liberalization within the multilateral framework of the WTO;

• call on all countries to open their markets further and resist protectionism;

• strongly support the widening of the WTO's membership in accordance with established WTO rules and practices;

• agree to promote public support for the multilateral system by encouraging greater transparency in the WTO, as in other international organizations;

• reaffirm our support for efforts to complete existing multilateral commitments, push forward the built-in agenda, and tackle new areas in pursuing broad-based multilateral liberalization; and

• confirm our wish to see emerging and developing economies participate fully and effectively in the multilateral trade system.

"We are encouraged by the new spirit of hope and progress in Africa."

6. The last point highlights one of the most difficult challenges the world faces: to enable the poorer developing countries, especially in Africa, develop their capacities, integrate better into the global economy, and thereby benefit from the opportunities offered by globalization. We are encouraged by the new spirit of hope and progress in Africa. The challenges are acute, but confidence that they can be overcome is growing. We commit ourselves to a real and effective partnership in support of these countries' efforts to reform, to develop, and to reach the internationally agreed goals for economic and social development, as set out in the OECD's twenty-first century strategy. We shall therefore work with them to achieve at least primary education for children everywhere, and to reduce drastically child and maternal mortality and the proportion of the world's population living in extreme poverty.

7. To help achieve these goals, we intend to implement fully the vision we set out at Lyon [June 27–29, 1996] and Denver [June 20–22, 1997]. We therefore pledge ourselves to a shared international effort:

• to provide effective support for the efforts of these countries to build democracy and good governance, stronger civil society and greater transparency, and to take action against corruption, for example by making every effort to ratify the OECD Anti-Bribery Convention by the end of 1998;

• to recognize the importance of substantial levels of development assistance and to mobilize resources for development in support of reform programs, fulfilling our responsibilities and, in a spirit of burden sharing, including negotiating a prompt and adequate replenishment of the soft loan arm of the World Bank (IDA-12) as well as providing adequate resources for the Enhanced Structural Adjustment Facility of the IMF and for the African Development Fund;

• to work to focus existing bilateral aid and investment agency assistance in support of sound reforms, including the development of basic social infrastructure and measures to improve trade and investment;

• to support the speedy and determined extension of debt relief to more countries, within the terms of the Heavily Indebted Poor Countries (HIPC) Initiative agreed by the international financial institutions and the Paris Club. We welcome the progress achieved with six countries already declared eligible for HIPC debt relief and a further two countries likely to be declared shortly. We encourage all eligible countries to take the policy measures needed to embark on the process as soon as possible, so that all can be in the process by the year 2000. We will work with the international institutions and other creditors to ensure that when they qualify, countries get the relief they need, including interim relief measures whenever necessary, to secure a lasting exit from their debt problems. We expect the World Bank to join the future financial effort to help the African Development Bank finance its contribution to the HIPC Initiative; and

• to call on those countries who have not already done so to forgive aid-related bilateral debt or take comparable action for reforming least developed countries. ■

Selected IMF Rates

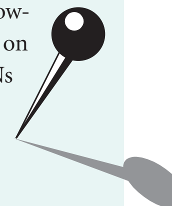
Week Beginning	SDR Interest Rate	Rate of Remuneration	Rate of Charge
May 11	4.28	4.28	4.58
May 18	4.25	4.25	4.55

The SDR interest rate and the rate of remuneration are equal to a weighted average of interest rates on specified short-term domestic obligations in the money markets of the five countries whose currencies constitute the SDR valuation basket (the U.S. dollar, weighted 39 percent; deutsche mark, 21 percent; Japanese yen, 18 percent; French franc, 11 percent; and U.K. pound, 11 percent). The rate of remuneration is the rate of return on members' remunerated reserve tranche positions. The rate of charge, a proportion (currently 107 percent) of the SDR interest rate, is the cost of using the IMF's financial resources. All three rates are computed each Friday for the following week. The basic rates of remuneration and charge are further adjusted to reflect burden-sharing arrangements. For the latest rates, call (202) 623-7171 or check the IMF web site (http://www.imf.org/external/np/tre/sdr.htm).

Data: IMF Treasurer's Department

Press Information Notices

Press Information Notices (PINs) are IMF Executive Board assessments of members' economic prospects and policies issued—with the consent of the member—following Article IV consultations, with background on the members' economies. Recently issued PINs include:



Costa Rica, No. 98/34, May 14

Full texts of PINs are available on the IMF's web site (http://www.imf.org/pins).

Managing Director Discusses Global Architecture

(Continued from front page) particularly vulnerable to a sudden shift in market sentiment; and, last but not least, deep-seated problems of governance, corruption, and what U.S. commentators call "crony capitalism."

We have tried to deal with these major factors in Thailand, Korea, and Indonesia, and they will have to be taken into consideration in the future in whatever efforts are undertaken to avoid the recurrence of crises. But that will not suffice. There are calls for us to do a better job of predicting and preventing crises, addressing their social impact more effectively, stopping speculators and properly regulating this "casino economy," seeing to it that investors bear the full costs of their mistakes, stabilizing the international monetary system, providing for more political accountability of our institution, and so on.

We cannot deny the basic justification of these calls for change. World public opinion expects its leaders to design and build a new, common house with an audaciously modern architecture, and not limit themselves to some plumbing and interior decorating of the old mansion.

Seven Building Blocks

As responsible architects, let us start by recognizing the seven substantial building blocks that are at hand:

• *The tremendous potential for growth and prosperity* that globalization provides to countries that fully integrate into the global economy. The remarkable sources of dynamism are there, engendered by new information technologies and unifying financial markets. The question, then, is how to discipline and channel these forces so that growth will be sustainable and more broadly shared, and the fundamental desire for greater equity will be more fully satisfied.

• *Integration*. By integrating into the mainstream of the globalizing world economy, the poorest countries will avail themselves of a most powerful instrument for accelerating development. Not to do so would expose them to the risks of marginalization.

• The importance of an increasingly *open and liberal system of capital flows* for globalization to deliver on its promises.

• The "golden rule" of *transparency*—the key for modern management, economic success, and rational behavior of global markets.

• *Good governance*, which is equally essential for strong economies and properly functioning democracies.

• *Standards and codes of best practices.* The global markets still suffer from the kind of anarchy that afflicted Europe's domestic financial markets until various scandals and crises led to the creation of securities and exchange commissions, banking supervision, accounting standards, disclosure and prudential rules, and so forth. Our challenge today is to disseminate these good practices in emerging markets and to establish similar checks and balances in global markets.

Many will pretend that the absence of rules or regulations has been at the very origin of the development of these markets. The world community is now coming to a different view and looks forward to the definition of international standards and codes of good practices, which would be progressively disseminated by the IMF through its surveillance and could help limit the excesses of an international "casino economy."

• *A multilateral approach* to handling problems that are now more and more global in nature. The key instruments of such an approach will have to be the Bretton Woods institutions, whose accumulated experience, quality of staff, and demonstrated ability to address new economic challenges promptly and efficiently make them a major asset of the world community and a central pillar of a new architecture, provided they continue adapting themselves to this new world.

Public opinion expects leaders to create a modern global financial architecture.

These seven building blocks have been neglected or unevenly utilized for too long. Assembled in the right way, they could offer a rock-solid foundation for a new financial system. Assembling them, nevertheless, will be hard work. Vested interests or perverse practices must be challenged. Thus, notwithstanding our sense of urgency, we are heading here for an evolutionary change. We can expect risks and uncertainties to persist for some years to come. This makes it all the more urgent to get to work on this new architecture right away.

Initial Steps for a New Architecture

A number of significant steps are already under way. At its April meeting, the Interim Committee (of ministers and central bank governors of IMF member countries) set the broad agenda. Five areas have been given priority:

• *A central role for the IMF in crisis prevention* through its surveillance and its role in encouraging members to strengthen their macroeconomic policies and financial sectors. The Interim Committee suggests the IMF intensify its surveillance of financial sector issues and capital flows, and focus on the risks posed by potentially abrupt reversals of capital flows, especially those of a short-term nature. The IMF is also asked to examine ways to strengthen the monitoring of capital flows—a major and difficult undertaking!

For IMF surveillance to be effective, member countries must provide timely, accurate, and comprehensive data to the IMF. The Interim Committee underscored

members' obligations in this regard and suggested delaying the IMF reviews of member economies when deficiencies in disclosing relevant information seriously impeded our surveillance.

The countries of the Group of Seven can provide leadership by pledging to convey to the IMF and to publish comprehensive and timely data on both gross and net reserves, as well as external debt and data on banking and financial sector health.

• Drawing on the lessons from the Asian crisis and the frustration that the IMF's confidential warnings were not always heeded, the *IMF has been asked to develop a tiered response*, whereby countries that are believed to be seriously off course in their policies are given increasingly strong warnings.

• The IMF was also called upon to *help members strengthen their domestic financial systems* by encouraging them to develop supervisory and regulatory frameworks consistent with internationally accepted best practices, and adopt strengthened standards for bank and nonbank institutions.

The IMF is helping to disseminate the Basle Committee's Core Principles for strengthening banking regulation and supervision. We will now work with other relevant institutions responsible for developing similar standards in accounting, auditing, disclosure, asset valuation, bankruptcy, and corporate governance. We will also consider how to disseminate such standards to member countries through our surveillance and encourage their adoption.

Michel Camdessus: with more responsibilities being given to the IMF, ideas to improve its political accountability will need to be discussed.

The IMF has been applying this standards approach to one of its traditional domains of expertise: fiscal policy. The IMF developed a code of good practices on fiscal transparency to which members will be encouraged to adhere. Looking ahead, we plan to develop a similar code with respect to financial and monetary policies in cooperation with the appropriate institutions.

• The Interim Committee reaffirmed both *the IMF's central role in crisis management* and the need to develop more effective procedures to involve the private sector in forestalling or resolving financial crises.

Some follow-up actions are needed, including measures to discourage excessive reliance on short-term financing and to strengthen countries' capacity to withstand sudden shifts in market sentiment. The Interim Committee has asked the IMF to consider ways to strengthen incentives for creditors to use available information to analyze risks appropriately and avoid excessive risk taking.

Possibilities include introducing provisions in bond contracts regarding bondholder representation and voting in case of negotiations on bond restructuring; extending the IMF's policy of providing financing to member countries in arrears to private creditors; encouraging strong bankruptcy systems for both domestic and international capital markets; and advising member countries to exercise greater caution in granting public guarantees.

We also need to examine the possibility of closer contacts with creditors to explain IMF arrangements and, if needed, catalyze private sector financing to achieve more equitable burden sharing vis-à-vis the official sector and limit moral hazard.

• The time has come to make *the liberalization of capital movements one of the purposes of the IMF* and extend, as needed, the IMF's jurisdiction for this purpose. The Executive Board was asked to pursue work on this issue with determination, with the aim of submitting an appropriate amendment of our Articles of Agreement as soon as possible.

What Next?

No doubt with globalization unfolding its opportunities and risks, new priorities will promptly capture our attention and overtake our pre-established agendas. But it is always better to try to anticipate them, particularly when they reflect problems that should already have been addressed, such as the integration of the poorest countries in the globalized economy, the stabilization of the international monetary system, and the democratic accountability of international financial institutions.

The issue of the *integration of the poorest countries* is, of course, already on our agenda. But, true, the attention of the world has been so focused on the Asian crisis and the need to avoid its recurrence that the immense problem of development and alleviation of poverty, particularly in Africa, seems to have been put temporarily on a back burner. This is no longer acceptable.

In this context, I was particularly happy that, in drawing the lessons of an external evaluation of ESAF, the Interim Committee encouraged us to "strengthen the ability of the IMF to foster sustained growth and external viability in poor countries." The success or failure of poor countries in finding their own way toward integration and development in an interdependent world will have a major influence on what the twenty-first century will be. The solidity of our new architecture will crucially depend on the way in which, for the poorest countries, monetary and financial strategies and poverty alleviation are made mutually reinforcing.

Industrial countries must play their full part in these efforts. Today's silence on the crisis in official develop-

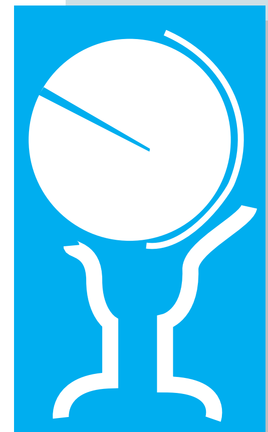
ment assistance is profound and distressing. It means that Africa, in particular, must rely chiefly on humanitarian compassion or the benefits of trade for its economic progress. This cannot suffice if human development is to be intensified and accelerated. The macroeconomic and structural successes of recent years, in the context of IMF-World Bank-supported programs, are creating an opportunity that is too good to miss. Africa has found a way to advance from two decades of negative per capita growth to positive growth in more than forty countries. In many African countries, a new generation of leaders is seriously concerned about the need for democratization, protection of human rights, promotion of "good governance," and human development. Their efforts are in danger of falling short, however, because their domestic savings rates are still too low to finance the volume of investments needed to boost their rate of growth from approximately 5 percent to over 7 percent. This is not an unrealistic objective; it could be attained and sustained for a long time if local savings were supplemented by an appropriate mix of public and private foreign support and if a few key conditions were met. These are continued modernization of the framework for private investment and improvement in public governance through the total commitment of new governing teams.

The stability of the international monetary system has been on the agenda for more than twenty years of annual summits. The Asian crisis has highlighted how disruptive developments in exchange markets can help trigger a crisis. It is in this domain that efforts to strengthen multilateral surveillance over the international monetary system could be particularly fruitful.

Moreover, the development of the euro into a key international currency could make a major contribution to stability of the overall architecture, provided that close cooperation is established among the monetary authorities of the tripolar system that might take shape. The new international monetary equilibrium will have to be kept under review as a key element of the new architecture. From the outset, effective means of coordination will have to be found to avoid excessive misalignments and disruptive corrections. The world is fully justified in expecting responsible leadership from these major currency blocs, which should be actively mindful of their global responsibility and resist the temptation of "benign neglect."

Conclusion

Lastly, at a time when de facto more and more responsibilities are being given to the international financial institutions, and particularly to the IMF, is there anything that could be done to strengthen their political accountability or legitimacy? At this stage, this would require at least a few organizational changes, which would make more explicit the tie that binds us to the governments we depend on. The IMF could, for instance, encourage its Governors, in general the ministers of finance, to become more actively involved in its work in terms of decision making and not merely in a consultative capacity in the Interim Committee. A similar question faces the Group of Seven. The design of a new architecture provides, perhaps, a good occasion to address these long-avoided questions.



Two avenues could be explored. The first would be to *"revitalize" the IMF Interim Committee.* It could become an essential structure, because no other can match the scope of its responsibility and the legitimacy of its members. At present, however, it is hampered by the ritualism of its meetings and an insufficient awareness of its uniqueness and potential. The French Minister of Finance Dominique Strauss-Kahn has suggested transforming this Committee into a "Council" with decision-making, rather than merely consultative, power. Such a transformation would give the IMF renewed and very valuable legitimacy for the increasingly difficult tasks it is called upon to perform.

The second avenue, in the same spirit, would consist of making provisions every two years for the Group of Seven/Group of Eight—on the occasion of their meetings—to join the heads of state and government of the 16 countries holding seats on the IMF and World Bank Executive Boards to discuss with them and with the heads of those two institutions and the World Trade Organization the major economic and financial questions of the day. This *new Group of 24* would have the significant merit of its basic legitimacy, as it would strictly reflect the system of international representation established for monetary and financial affairs in Bretton Woods. This would clearly represent a step forward, not only in terms of dispelling the current malaise but also in terms of hastening the adoption of integrated policy responses to the challenges of the globalized economy. The Secretary General of the United Nations should also be invited to participate, to take into account the work of the entire family of UN agencies, which could become a fourth humanitarian and social pillar of the world system.

Such ideas could, of course, be met with skepticism and run up against logistical problems that may seem insurmountable. Nevertheless, they need to be discussed, as they could provide a concrete way of recognizing that each medium-sized or developing country must have a more equitable share of responsibility for the future of the world economy, a share that they believe is unjustly denied them in the present institutional arrangements of the international financial system. ■

The full text of the Managing Director's address is available on the IMF's web site at http://www.imf.org/external/news.htm.

Paris Seminar Addresses African Adjustment To the Challenges of Globalization

On May 4–5, officials from African and East Asian countries and staff from the IMF, the World Bank, and several development organizations gathered in Paris for a seminar on "Adjusting to the Challenges of Globalization in Africa." The seminar was organized by the Japanese Ministry of Finance and the IMF. It was co-chaired by Motomichi Ikawa, Senior Deputy Director General of the International Finance Bureau of Japan's Ministry of Finance; Jack Boorman, Director of the IMF's Policy Development and Review Department; and Evangelos Calamitsis, Director of the IMF's African Department. The seminar was the fourth in a series begun in 1994, that has explored the lessons the East Asian economies could offer Africa in its quest for more rapid and sustainable growth.

The seminar was held against a backdrop of Africa's improving economic performance and brighter outlook, after some two decades of lost opportunities. Real GDP is growing at 4–5 percent, and per capita incomes are on the rise. Most important, although external circumstances and weather have helped in some cases, this progress is attributable primarily to good economic policies—getting prices right, reducing internal and external imbalances, liberalizing the exchange and trade systems, and proceeding with more fundamental structural reform.

The real challenge is setting priorities in the midst of limited capacities.

Yet Africa's growth performance still lags behind that of many developing countries, and questions have been raised about whether recent economic gains are sustainable. This is particularly troubling, given that Africa now needs even faster growth to make up for the ground lost and to make a real dent in the pervasive poverty.

What challenges does this pose? Two key factors stand out. First, the private sector response is still very cautious, as evidenced by the inadequate rates of private saving and investment, including from abroad. Second, Africa has been relatively slow in integrating itself into the global marketplace. Thus, Africa has been missing out on the benefits of globalization and risks marginalization.

For this reason, the seminar sought to find ways to sustain, and even accelerate, Africa's growth in a globalized world. Seminar participants agreed that the answer lies in creating an environment that promotes better government and fosters private entrepreneurship. Indeed, the real challenge is not deciding what should be on the reform agenda, but setting priorities in the midst of limited capacities. Most agreed that five items—increasingly referred to as "second generation" reforms—should top the list. Besides the essential task of consolidating macroeconomic stability, these include:

- establishing a clear and equitable regulatory framework;
- strengthening the financial sector and improving financial intermediation;
- further liberalizing exchange and trade systems;
- enhancing capacity to formulate and implement national reform programs; and
- improving public resource management and delivery systems in support of basic social services.

Regulatory Reform

On regulatory reform, participants agreed that a business-friendly and predictable regulatory environment was vital for attracting domestic and foreign investment—especially much-needed foreign direct investment. The regulatory framework should safeguard property and related rights through well-defined legislation, be transparent and easily enforceable, and be free of arbitrariness or favoritism.

But participants also agreed that the mere existence of a good legal framework was not enough. As Florian Alburo of the University of the Philippines and Iain Christie of the World Bank's Africa Region noted, the rules must be applied equally, impartially, and without exception—underscoring the need for an independent and efficient judiciary. Hak Kuk Joh, Director-General of Korea's Anti-Trust Bureau in the Fair Trade Commission, suggested Africa not delay the deregulation of foreign direct investment, as Korea had done, largely because of worries about losing sovereignty over economic policymaking.

For the Africans' part, several, such as Mozambique's Minister of Planning and Finance, Tomaz Salomão, cited the need for capacity building as the key to attracting investment. But many also pointed to reforms already taken, wondering why more foreign investment has not been forthcoming. Mansour Cama, Chair and Chief Executive Officer of Senegal's National Confederation of Employers, suggested that there was an image problem, a concern that would be echoed throughout the seminar. Vina Dabeesingh of the Mauritius Stock Exchange Commission urged governments to get the word out on reform efforts to foreigners and the local populace—the latter to build a consensus for reform. However, Godfrey Simasiku, Zambia's Deputy Minister of Finance and Economic Development, said foreigners also need to try to understand Africa better—a continent rich in human resources, raw materials, and culture.

Financial Sector Reform

Participants agreed that a sound financial sector is essential to foster private saving and investment, and to

attract private capital in a globalized world. This message—along with the need for full transparency and accountability—was driven home most recently by events in Asia, noted Co-Chair Motomichi Ikawa.

Despite some recent progress, Africa needs to accelerate reform in this area. Piero Ugolini of the IMF's Monetary and Exchange Affairs Department said the critical elements include an independent and accountable central bank with autonomy in the conduct of monetary policy to maintain price stability; a sound banking structure; an appropriate banking supervision framework, based on best international standards; and a well-functioning payments system. Also, responsibility for bank licensing and supervision should rest in an independent authority, free of political interference.

Many African participants cited the need to bring down interest rates and deepen financial intermediation to channel medium- and long-term credit to the private sector. Participants agreed that fostering competition among banks is essential, policy credibility is vital, and fiscal discipline is needed to reduce the crowding-out impact of government borrowing from the banking system. They also recognized the need for creating a class of qualified national financial managers, regulators, and supervisors—not to mention ensuring their independence from political interference.

Trade Reform

There was broad agreement that Africa needs to step up the liberalization of its trade regime if it is to reverse a declining share of world trade and lay the foundation for higher growth of output and exports. Certainly, the experience of Asia—and more recently Latin America—showed clearly that an outward-oriented trade strategy delivered notable results in terms of efficiency, competitiveness, and superior growth performance. Moreover, trade liberalization and related improvements in the transparency of the trade regime are essential to enhancing the investment climate. Robert Sharer of the IMF's Policy and Development Review Department noted that, although much progress has been made in recent years, Africa has started from a highly restrictive position, so that today most African trade regimes remain significantly more restrictive than those of other developing regions. Thus, the issue was not whether trade regimes should be liberalized but rather how fast and how deeply.

Some African speakers, such as Ibrahima Makanguile, Secretary-General of the Network of Private Entrepreneurs in Mali, worried about the capacity of their countries to compete in international markets. They also noted that social safety nets and fiscal concerns about possible revenue loss from trade taxes need to be factored into the design and timing of trade reform programs. And many speakers pointed to the useful role that regional arrangements could play in trade liberalization.

Questions about why foreign direct investment seem unduly delayed in Africa prompted Co-Chair Jack Boorman to ask a question of his own: "Is there a minimum regional dimension, or dynamism, that needs to be in place to make an area attractive, or is Africa still paying the price of its poor image?"

Role of Governments

Turning to the role of governments, participants agreed that policies need to be consistent, credible, predictable, and transparent—that is, there needs to be good governance. But what can be done to ensure that the needed human capital and institutional structures are in place to carry out the required reforms? Certainly, civil service reform is critical, but the record to date has not been impressive. And technical assistance, despite the very large sums spent, has not built up Africa's capacity appreciably. Ghana's former Finance Minister, Kwesi Botchwey—who coordinated the recent external evaluation of the IMF's Enhanced Structural Adjustment Facility (ESAF)—said the best hope rests in trusting African countries to determine their own needs and shape their own capacity-building programs. One hopeful sign is the recent African initiative to define needs at the national level and mobilize external assistance to support these needs in a coherent and coordinated manner.

What steps should governments take to accelerate further the formation of human and physical capital? Sanjeev Gupta of the IMF's Fiscal Affairs Department cited a recent IMF study of 22 countries in Africa showing that there has been some progress since 1985 in allocating more resources for education, health, and infrastructure in relation to GDP—and these higher outlays have been accompanied by improvements in some social indicators. But both he and Luca Barbone of the World Bank's Africa Region said greater attention now needs to be paid to the efficiency and composition of expenditure—and in particular to ensure that the poor are among those who benefit.

Concluding Thoughts

In closing, co-chairman Evangelos Calamitsis noted that even though Africa's development partners have a vital role to play, everyone agreed that efforts to develop competent institutions and regulations—and to remove any remaining official tolerance for corruption—must be homegrown. This was consistent with one of the central findings of the IMF's recent external ESAF evaluation.

Also, where there is successful reform, the countries and donors alike need to do a better job of conveying this message to foreign investors. "In other words," Calamitsis said, "we must help bridge the 'image gap' between the old and emerging Africa." ■

Laura Wallace
IMF, External Relations Department

Singapore Regional Training Institute Opens With Seminar on Capital Flows in Asia

An inaugural seminar on "Capital Flows: Challenges and Opportunities in Asia" on May 4 marked the opening of the IMF-Singapore Regional Training Institute (STI). IMF Managing Director Michel Camdessus and Singapore's Minister for Finance Richard Hu presided over a ribbon-cutting ceremony, which preceded the seminar and was attended by ministers, central bank governors, and other high-ranking officials from the Asia and Pacific region. A two-day seminar on capital account convertibility, which followed the inaugural seminar, was the first regular training event.

Michel Camdessus and Richard Hu officially open the IMF-Singapore Regional Training Institute.

The idea for such an institute predated the massive international interest in the financial crisis of 1997, Camdessus explained. In late 1996, Singapore's Prime Minister, Goh Chok Tong, proposed a joint training institute in the course of a meeting on the World Trade Organization held in Singapore; Camdessus said, "It was the only decision I have ever made on the spot!" Planning began soon afterward, with IMF Institute Director Mohsin Khan coordinating the IMF's collaboration with counterparts in Singapore's Monetary Authority and Ministry of Foreign Affairs. A temporary site was readied at the Monetary Authority; a permanent site, at the National University of Singapore, will be ready by 2002.

The STI provides "further evidence of the strong commitment by the Fund to our membership in this region," said Camdessus. Through it, the IMF could help "develop human capital....to ensure the continued and healthy growth of economies in the Asia and Pacific region." Speaking on "Restoring Credibility in Economic Management: The Strengthening of Institutional Capabilities," Hu termed the institute as "especially important against the developments in this region since mid-1997, which have highlighted the need for institutional building and training." Hu held public institutions accountable for failing to safeguard the stability of financial systems. Institutional weaknesses also impeded the adjustment process. The STI, he added, will help countries in the region develop the capacity to meet the challenges of the twenty-first century in a world of increasing financial globalization and integration.

Camdessus spelled out the need for more open governmental operations and financial systems, and orderly capital account liberalization. The STI, he said, would contribute to all these objectives by developing skills, disseminating the lessons of experience, and providing a forum for discussion on important regional issues.

The inaugural seminar also included presentations by Teh Kok Peng, Deputy Managing Director of Singapore's Monetary Authority; Morris Goldstein of the Institute for International Economics, Washington D.C.; and Takatoshi Ito of Hitotsubashi University, Tokyo. Teh cited Singapore's prudent policy stance during the first half of the 1990s as a major factor in providing a buffer against the full effects of the Asian financial crisis. For the longer-term, he stressed the importance of effectively directing savings into productive investments, avoiding the build-up of short-term debt, and ensuring good governance. Goldstein examined how the Asian crisis arose and spread, outlined the kinds of corrective policy measures needed, and suggested improvements in the international framework for crisis prevention and crisis management. Ito cited the high ratios of short-term borrowing relative to foreign reserves, lax bank supervision, and lenders' assumptions that the governments and the international community would not let borrowers in the region go under as causes of the Asian crisis.

During its first year of operation, the STI will offer courses or seminars on macroeconomic adjustment and reform policies, financial programming, monetary and exchange operations, public finance, banking supervision, and macroeconomic accounting and statistics for officials from some 28 countries in the Asia and Pacific region. Special high-level seminars on topical subjects will also be organized. Training will be provided by the IMF Institute and other IMF staff. The Monetary Authority will collaborate in the design of the training program. The IMF has named Donal Donovan, formerly with the Fund's European II Department, as Director and will post a Senior Economist and a long-term consultant. The temporary STI site will train roughly 350-400 people a year; the permanent site will have the capacity to train well over 1,000 people annually.

The IMF Institute sees the STI as the first of a series of regional institutes that will help expand the IMF Institute's outreach. Khan welcomed it as an important element in meeting the sizable training needs of the IMF's member countries. ■

Shuja Nawaz
IMF Institute

For more information, please visit the section devoted to the STI on the IMF Institute web site (http://institute.imf.org/english/training/index.htm") or e-mail the IMF Institute (insinfo@imf.org).

Sound Policies and Reforms Help Philippines Manage Crisis and Seek Stronger Growth

Beset by natural disasters and debt and banking crises, the Philippines substantially underperformed its Southeast Asian neighbors in the 1980s. Building on economic and political reforms, however, the country has made significant progress in the 1990s. Sound macroeconomic policies and wide-ranging structural reforms sharply boosted growth and brought down inflation to well within single digits. This commitment to macrostability and reforms has also made the economy more resilient in the face of shocks and has enabled it thus far to weather the continuing tumult in the Asian financial markets. Underlying vulnerabilities, however, remain to be addressed if the economy is to achieve a lasting "take-off." The regional crisis has highlighted these weaknesses and made the task of addressing them even more urgent.

Progress in the 1990s

The Philippine economy improved steadily in the 1990s, building on sound macroeconomic and structural policies and supported, since mid-1994, by an IMF arrangement under its Extended Fund Facility. Real GDP growth accelerated from zero in 1991 to around 6 percent in 1996; inflation fell from almost 20 percent to 5 percent, interrupted only by a supply shock (rice shortages) in late 1995; and the external position strengthened, with reserve coverage rising to over 2½ months of imports (see table).

In the early 1990s the fiscal deficit declined sharply, privatization accelerated, and a new statute helped recapitalize the central bank. The budget benefited from an expansion of the value-added tax, the deregulation of the oil industry and the end of oil price subsidies, and a successful reform of customs administration. Fiscal adjustment, in turn, greatly helped with the effective implementation of a tighter monetary policy.

The economy also opened up to greater domestic and foreign competition. Building on the private sector's success in resolving chronic power shortages, the Philippines liberalized the banking, telecommunications, and domestic shipping sectors, among others. Virtually all sectors were opened to foreign investment, with limits on foreign participation abolished or reduced in various sectors. The average tariff rate dropped to less than 15 percent or half the level of the mid-1980s, and nontariff barriers declined substantially.

Even so, by 1997 major obstacles remained to sustained rapid growth and low inflation. Tax, civil service, and local government finance reforms had been delayed; poverty and income inequality remained widespread; savings were much below the other major economies of Southeast Asia; and the external position had become increasingly vulnerable. In particular, a surge in private sector credit growth, fueled by rising capital inflows, added to the vulnerabilities—notably in the banking system. Resolving these problems is essential to continued economic progress, and has become more urgent with the onset of the Asian crisis.

Philippines: Selected Economic Indicators

	1995	1996	1997	1998 Proj.	1999 Proj.
GNP and prices (percent change)					
Real GNP	5.0	6.9	5.8	3.0	5.0
CPI (annual average)	8.1	8.4	5.1	8.0	6.5
Investment and saving (percent of GNP)					
Gross investment	21.6	23.3	23.9	23.0	23.7
National saving	17.3	18.8	18.7	20.1	20.9
Public finances (percent of GNP)					
National government balance[1]	–1.3	–0.4	–0.9	–1.0	–0.1
Consolidated public sector balance	–0.1	–0.2	–0.9	–0.9	–0.0
Monetary sector (percent change, end of period)					
Broad money	25.3	15.8	20.9	17.0	18.1
Base money	23.6	14.2	16.1	13.0	13.6
Balance of payments (percent change)					
Export value	29.4	17.8	22.8	15.5	14.8
Import value	23.7	20.8	15.0	0.4	12.0
Current account (percent of GNP)	–4.3	–4.5	–5.2	–2.9	–2.8
Monitored external liabilities (percent of GNP)[2]	49.6	48.1	56.9	81.3	81.4
Debt service ratio (percent of goods and services)	16.2	15.5	11.1	11.5	13.1
Reserves, adjusted (months of imports)[3]	2.2	2.8	1.7	1.9	2.4

[1]IMF definition. Excludes privatization receipts of the national government and includes net deficit from restructuring the central bank.
[2]For the years prior to 1997, the data refer only to external debt. For 1997 and later, they refer to a broader measure, which includes in addition other banking sector foreign liabilities.
[3]Gross reserves less gold and securities pledged as collateral against short-term liabilities.

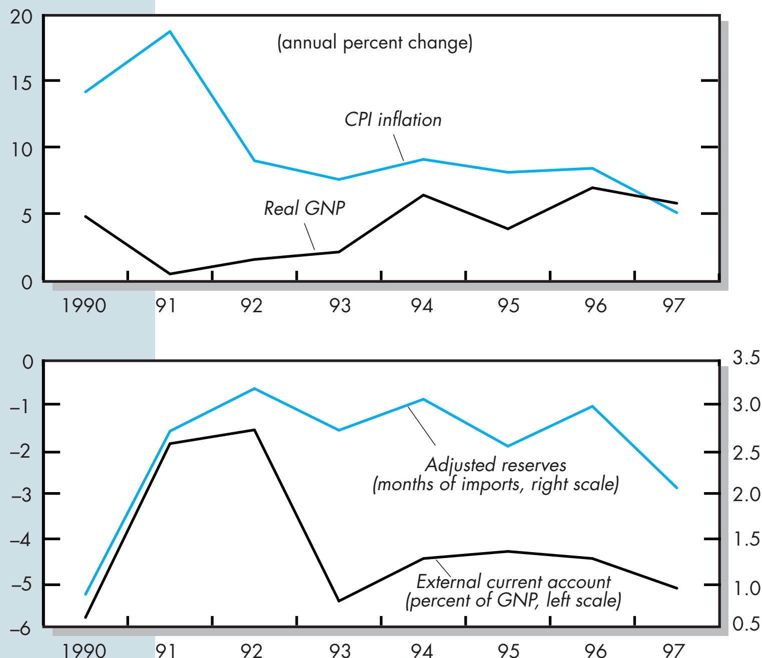
Data: Philippine authorities; staff estimates; and IMF Information Notice System

Crisis Management

With large external borrowing in 1996, especially by banks, the Philippines became increasingly vulnerable to shifts in market sentiment. In early 1997, a sharp fall in the stock market and a decline in capital inflows were accompanied by mounting pressures on the peso, a slowdown in manufacturing output, and a weakening in the fiscal position. The authorities initially responded by tightening monetary policy and by intervening to maintain the de facto peso/U.S. dollar exchange rate peg that had been in place since late 1995. When this became untenable in the aftermath of the float of the Thai baht, the authorities floated the peso on July 11 and tightened fiscal and monetary policies. To support this policy, the IMF Executive Board augmented and extended the Extended Arrangement through end-1997 under the IMF's emergency financing procedures.

When the crisis proved much more prolonged and more pronounced than initially anticipated, policy implementation in late 1997 became somewhat uneven. The fiscal position weakened as a result of delays in approving tax reform legislation and slippages in tax collections. Bank lending rates rose to 25–30 percent, despite an easing of monetary policy in late 1997; the outlook for growth and inflation worsened; and the corporate and banking sectors showed increasing signs of stress. In a surprise ruling, the Supreme Court in October 1997 invalidated legislation that had deregulated the oil industry. In light of this, the Extended Arrangement was extended further to March 31, 1998. In early January 1998, the peso depreciated to over P45 per U.S. dollar (42 percent lower than on the eve of the float) in a new round of regional currency turmoil.

Philippines: Economic Developments



Data: Philippine authorities

In recent months, the authorities have further adapted and strengthened policies: approving final components of the comprehensive tax reform legislation, enacting a revised oil deregulation law, and adopting a comprehensive new economic program for 1998–99. This provided the basis, on March 27, 1998, for the approval of a new two-year Stand-By Arrangement in the amount of SDR 1.02 billion—161 percent of quota (see *IMF Survey*, April 6). The authorities have indicated they will treat the new arrangement as "precautionary"—drawing on it only in case of need. Reflecting the positive impact on markets of these policy adjustments, the peso recovered and has fluctuated in a range of P38–P40 per U.S. dollar since April, and bank lending rates have declined from 24–30 percent to 17–22 percent.

Program for 1998–99

The twin challenges now are to continue with successful crisis management, while providing the basis for a lasting recovery. The 1998–99 program is designed to provide a framework for continued reforms and sound economic policies during the political transition and thereafter (national elections were held on May 11). The basic strategy is to provide for an orderly adjustment to the reduced private capital inflows occasioned by the regional crisis and to facilitate an early return to rapid economic growth in an environment of low inflation and restored investor confidence. External private and official borrowing will smooth the adjustment, especially during 1998. The main economic objectives of the program are to contain the slowdown in real GNP growth, limit average inflation, and strengthen the external position by substantially reducing the current account deficit and by increasing reserve cover.

To achieve these objectives, policies will center on strengthening the fiscal position and adopting an appropriate monetary and exchange rate policy stance and on implementing structural reforms to strengthen the banking system, ensure fiscal sustainability, and reduce poverty. The consolidated public sector deficit will be held to 0.9 percent of GNP in 1998 and will move into balance in 1999. Monetary and exchange rate policies will aim to support a lasting stabilization of the peso and contain the inflationary impact of the crisis. Monetary policy will continue to rely on base money targets in the context of a floating exchange rate regime. Uncertainties over money demand in the current unsettled situation, however, require that these targets be continually reviewed and day-to-day policy implementation pay close attention to market signals about underlying monetary conditions (such as the exchange rate and market interest rates).

A comprehensive action plan for banking sector reform aims to strengthen the system by managing emerging problems proactively and by minimizing the risk of a future flow of nonperforming loans. Key elements include raising banks' capital and encouraging consolidation in the industry to strengthen banks' capacity to absorb shocks, tightening provisioning requirements and regulatory oversight, reducing the disincentives for peso intermediation relative to foreign-currency intermediation, and dealing effectively with problem banks. These reforms are to be supported by a World Bank loan, which is expected to be approved around mid-year. The World Bank is also actively supporting policy design and implementation in other areas, especially public sector management issues. Assistance from the Asian Development Bank will focus on capital-market development, especially the market for long-term debt.

Crucial for long-term growth, domestic savings are targeted to rise substantially over the medium term, providing resources for priority investments, while allowing for a continued gradual narrowing of the current account deficit. This, in turn, will require a substantial increase in

public savings. Medium-term fiscal consolidation is the key, with emphasis on greater revenues to provide sufficient resources for investment in infrastructure, social services, and human capital. To increase the ratio of taxes to GDP (currently at 16 percent), the program includes an action plan to strengthen the chronically weak tax administration system and envisages a reduction in the wide array of fiscal incentives that currently undermine it. On the expenditure side, the emphasis is on streamlining government agencies and completing the ongoing civil service reform, rationalizing local government finances, and adopting a medium-term budgeting framework.

The IMF-supported adjustment program incorporates the authorities' overarching goal of poverty reduction,

Stand-By, EFF, and ESAF Arrangements as of April 30

Member	Date of Arrangement	Expiration Date	Amount Approved	Undrawn Balance
			(million SDRs)	
Stand-By Arrangements			**28,323.23**	**12,368.26**
Bulgaria	April 11, 1997	June 10, 1998	371.90	124.30
Cape Verde	February 20, 1998	April 19, 1999	2.10	2.10
Djibouti	April 15, 1996	June 30, 1998	6.60	2.63
Egypt	October 11, 1996	September 30, 1998	271.40	271.40
El Salvador	February 28, 1997	May 30, 1998	37.68	37.68
Estonia	December 17, 1997	March 16, 1999	16.10	16.10
Indonesia	November 5, 1997	November 4, 2000	7,338.24	5,136.77
Korea [1]	December 4, 1997	December 3, 2000	15,500.00	4,300.00
Latvia	October 10, 1997	April 9, 1999	33.00	33.00
Philippines	April 1, 1998	March 31, 2000	1,020.79	1,020.79
Romania	April 22, 1997	May 21, 1998	301.50	180.90
Thailand	August 20, 1997	June 19, 2000	2,900.00	900.00
Ukraine	August 25, 1997	August 24, 1998	398.92	217.59
Uruguay	June 20, 1997	March 19, 1999	125.00	125.00
EFF Arrangements			**12,335.70**	**6,828.47**
Algeria	May 22, 1995	May 21, 1998	1,169.28	84.48
Argentina	February 4, 1998	February 3, 2001	2,080.00	2,080.00
Azerbaijan	December 20, 1996	December 19, 1999	58.50	26.33
Croatia, Republic of	March 12, 1997	March 11, 2000	353.16	324.38
Gabon	November 8, 1995	November 7, 1998	110.30	49.63
Jordan	February 9, 1996	February 8, 1999	238.04	47.35
Kazakhstan	July 17, 1996	July 16, 1999	309.40	309.40
Moldova	May 20, 1996	May 19, 1999	135.00	97.50
Pakistan	October 20, 1997	October 19, 2000	454.92	398.06
Panama	December 10, 1997	December 9, 2000	120.00	110.00
Peru	July 1, 1996	March 31, 1999	300.20	139.70
Russian Federation	March 26, 1996	March 25, 1999	6,901.00	3,064.74
Yemen	October 29, 1997	October 28, 2000	105.90	96.90
ESAF Arrangements			**4,410.29**	**2,164.53**
Armenia	February 14, 1996	February 13, 1999	101.25	33.75
Azerbaijan	December 20, 1996	December 19, 1999	93.60	38.02
Benin	August 28, 1996	August 27, 1999	27.18	18.12
Bolivia	December 19, 1994	September 9, 1998	100.96	0.00
Burkina Faso	June 14, 1996	June 13, 1999	39.78	19.89
Cameroon	August 20, 1997	August 19, 2000	162.12	108.08
Chad	September 1, 1995	August 31, 1998	49.56	16.52
Congo, Republic of	June 28, 1996	June 27, 1999	69.48	55.58
Côte d'Ivoire	March 17, 1998	March 16, 2001	285.84	202.47
Ethiopia	October 11, 1996	October 10, 1999	88.47	73.73
Georgia	February 28, 1996	February 27, 1999	166.50	55.50
Ghana	June 30, 1995	June 29, 1998	164.40	68.50
Guinea	January 13, 1997	January 12, 2000	70.80	35.40
Guinea-Bissau	January 18, 1995	July 24, 1998	10.50	0.00
Haiti	October 18, 1996	October 17, 1999	91.05	75.88
Kenya	April 26, 1996	April 25, 1999	149.55	124.63
Macedonia, FYR	April 11, 1997	April 10, 2000	54.56	36.37
Madagascar	November 27, 1996	November 26, 1999	81.36	54.24
Malawi	October 18, 1995	October 17, 1998	45.81	15.27
Mali	April 10, 1996	April 9, 1999	62.01	20.67
Mauritania	January 25, 1995	July 13, 1998	42.75	0.00
Mongolia	July 30, 1997	July 29, 2000	33.39	27.83
Mozambique	June 21, 1996	June 20, 1999	75.60	25.20
Nicaragua	March 18, 1998	March 17, 2001	100.91	84.09
Niger	June 12, 1996	June 11, 1999	57.96	19.32
Pakistan	October 20, 1997	October 19, 2000	682.38	454.92
Senegal	April 20, 1998	April 19, 2001	107.01	89.18
Sierra Leone	March 28, 1994	May 4, 1998	101.90	5.06
Tanzania	November 8, 1996	November 7, 1999	161.59	74.47
Togo	September 16, 1994	June 29, 1998	65.16	10.86
Uganda	November 10, 1997	November 9, 2000	100.43	60.26
Yemen	October 29, 1997	October 28, 2000	264.75	220.75
Zambia	December 6, 1995	December 5, 1998	701.68	40.00
Total			**45,069.22**	**21,361.26**

[1]Includes amounts under Supplemental Reserve Facility.
EFF = Extended Fund Facility
ESAF = Enhanced Structural Adjustment Facility
Figures may not add to totals owing to rounding.

Data: IMF Treasurer's Department

Members drawing on the IMF "purchase" other members' currencies, or SDRs, with an equivalent amount of their own currency.

with particular focus on minimizing the social impact of the current crisis. The government is making best efforts to preserve social programs, especially those directed at poverty alleviation. It also aims to ensure that basic commodities, such as rice, are available, especially in the poorer communities. To combat rural poverty, rapid economic growth will need to be complemented with measures to strengthen agriculture and rural development. Equally important are efforts to improve primary education and basic health care, particularly in rural areas. Greater efficiency and better targeting of social expenditures will be fundamental to the success of these programs.

The still-unsettled regional situation, a fragile external position, banking sector weaknesses, and the uncertainties of the political transition still pose risks. The success of the program will hinge on firm implementation of policies and their flexible adaptation if warranted by changing circumstances. It will be critical that the new government, which takes office on July 1, embrace the program fully and move without delay to implement it.

In recent years, a culture of stability, modernization, and openness has taken root in the Philippines, in the context of a vibrant democracy and a participatory policymaking style—all of which augur well for lasting and sustainable economic progress. The regional financial turmoil represents a serious test for macroeconomic policies but also an opportunity to address underlying economic weaknesses. The authorities have begun to move decisively on both fronts, and a good momentum of reform has been established in such key areas as the banking sector. Continued efforts will ensure that the economy emerges from the crisis healthier and better prepared for the future. ■

Vivek Arora and Cheng Hoon Lim
IMF, Asia and Pacific Department

From the Executive Board

Albania: ESAF

The IMF approved a three-year loan for Albania under the Enhanced Structural Adjustment Facility (ESAF), equivalent to SDR 35.3 million (about $47 million), to support the government's 1998–2001 economic program. The first annual loan, equivalent to SDR 11.8 million (about $16 million), is available in two equal semiannual installments, the first of which is available immediately.

Medium-Term Strategy and 1998/99 Program

The main objectives of Albania's medium-term strategy are to sustain rapid growth and reduce inflation further, with a view to generating employment and reducing poverty. Over the three-year program, the authorities intend to achieve sustainable growth of 7–8 percent; reduce inflation to the levels of Albania's main trading partners (to about 3 percent by 2001); and maintain international reserve cover at about 3.7 months of imports of goods and nonfactor services externally. The goal is to bring down the current account deficit to levels consistent with medium-term viability.

Albania: Selected Economic Indicators

	1995	1996	1997[1]	1998[2]	1999[2]	2000[2]	2001[2]
	(percent change)						
Real GDP	8.9	9.1	–7.0	10.0	7.0	7.5	8.0
Retail prices (during period)	6.0	17.4	42.1	10.0	7.0	5.0	3.0
	(percent of GDP)						
Domestically financed deficit	6.6	11.0	10.9	6.6	5.2	4.2	3.2
Current account balance (excluding official transfers)	–7.2	–9.1	–11.9	–13.8	–11.2	–9.0	–7.4
	(months of imports of goods and nonfactor services)						
Gross international reserves	3.4	3.1	4.5	3.8	3.7	3.7	3.7

[1]Estimates.
[2]Projections.

Data: Albanian authorities and IMF staff estimates and projections

Fiscal policy is designed to support these objectives by reducing the domestically financed deficit to about 6½ percent of GDP in 1998 from about 11 percent in 1997, with a gradual reduction to about 3 percent by 2001. Monetary policy will also support inflation targets through appropriate interest rate policy and judicious application of credit ceilings. In the first year of the program, GDP growth is targeted at 10 percent in 1998 following an estimated decline of 7.0 percent in 1997; inflation is anticipated to fall to 10 percent during 1998, from 42.1 percent during 1997. The external current account deficit is expected to be the equivalent of 13.8 percent of GDP in 1998, compared with 11.9 percent in 1997, reflecting a pickup in imports to meet the economy's large post-crisis investment and reconstruction needs.

Structural Reforms

The government's commitment to resolve the pyramid scheme problem remains firm and the program contains a number of specific measures to ensure that this is accomplished and that the phenomenon cannot recur.

Banking sector reform is an essential element of Albania's program. Structural reforms in four other areas are particularly important: enterprise privatization; the creation of a functioning market in agricultural land; reform of public administration, including measures to combat corruption; and encouragement of remittances and transfers from Albanians living abroad.

Addressing Social Needs

Lasting alleviation of poverty is crucial to reversing the social consequences of the 1997 crisis and requires sustained high growth driven by private sector development.

Albania joined the IMF on October 15, 1991, and its quota is SDR 35.3 million (about $47 million). Its outstanding use of IMF financing currently totals SDR 39.9 million (about $54 million).

Press Release No. 98/18, May 13

Uganda Achieves Impressive Results In Reforming Public Service Sector

When Uganda gained its political independence in 1962, its public service system ranked among the best in Africa. By the late 1980s, however, after years of civil strife and economic mismanagement, the public service sector had become weak and bloated. The government that came to power in 1986 inherited an ineffective public service sector characterized by excessive centralization of power, inadequate pay and employee benefits, an obscure and compressed salary structure, and slow promotions. With the new government came a strategy shift toward macroeconomic stabilization. Its reform agenda called for private sector development and a smaller but more effective government achieved through public service reform.

The government set up the Public Service Review and Reorganization Commission in 1989 and, in 1992, launched the Civil Service Reform Program, based on the Commission's recommendations. In the first stage of the reform program—implemented in fiscal years 1993–97—the main objectives were to reduce the size of the public sector to manageable levels and rationalize salaries and noncash benefits. The results have been impressive: the program has eliminated about 44,000 "ghost" workers from the payroll, reduced temporary employees by about 60,000, and retrenched and laid off more than 50,000 civil servants. Furthermore, transportation and housing benefits are now provided on a monetary basis.

Improving Payroll Management

In January 1990, public service employees totaled about 320,000 (see table, page 172). They formed part of the central government, and were paid from the budget, as were university and local government employees. By the end of 1995, after the government had closed several ministries and regraded jobs, the number of central government employees fell by more than half, to just over 123,000. Two years later, this number rose by about 2,000, owing to an increase in the number of primary school teachers hired under the Universal Primary Education (UPE) program, launched in early 1997. Deep cuts in the number of traditional civil service and support staff offset this increase, however, as the number of ministries declined from 34 in the early 1990s to 22 in 1997.

To reduce the size of the public service sector, the government applied several methods, including retrenching workers, removing ghost workers—workers who appear on the payroll but are not employed—from its payroll, and freezing employment growth by limiting hiring. In an effort to retrench workers, the government began enforcing retirement rules in 1988/89. The government supplemented this by laying off temporary workers, not renewing contracts, and abolishing the Group Employee Scheme in 1995, which had allowed civil service managers to hire nonpensionable, short-term employees. Eliminating this scheme reduced employment by about 30,000, and increased the transparency of the public service.

Between 1991 and 1994, the government was also able to remove about 42,000 workers from its payroll with the help of its Payroll Monitoring Unit, which had checked all entries and exits from the payroll. However, such monitoring was not fully effective, and the problem of ghost workers recurred. Following an investigation, the Ministry of Public Service removed about 2,000 ghost workers between the end of 1996 and early 1997 and established an improved monitoring system to prevent the recurrence of ghost workers.

The government has also opted for periodic hiring freezes. This, however, sometimes conflicted with an urgent need to fill managerial positions in certain ministries, and the hiring freeze has been only partially implemented. In some instances employees were hired, but not put on the payroll pending the lifting of the freeze; the consequences have been wage arrears when the freeze lifted, complicating budgetary management.

Reforming Salary Structures

The main objective of salary reform, initiated in fiscal year 1995, was to increase transparency and to provide public service workers with performance-enhancing incentives by monetizing noncash benefits, raising basic salaries, and rationalizing the salary structure. In the early 1990s, the government remunerated workers with a basic monetary salary and noncash benefits, such as housing and transportation. A uniform 10 percent wage increase between 1994/95 and 1995/96 did not appreciably affect the spread between the lowest-paid and

Members' Use of IMF Credit
(million SDRs)

	Apr. 1998	Jan.–Apr. 1998	Jan.–Apr. 1997
General Resources Account	**368.63**	**4,196.32**	**1,358.82**
Stand-By Arrangements	7.50	3,243.77	372.41
Of which: Supplemental Reserve Facility	0.00	3,000.00	0.00
EFF Arrangements	361.13	952.55	878.81
CCFF	0.00	0.00	107.60
SAF and ESAF Arrangements	**212.73**	**400.94**	**158.90**
Total	**581.36**	**4,597.26**	**1,517.72**

Note: EFF = Extended Fund Facility
CCFF = Compensatory and Contingency Financing Facility
SAF = Structural Adjustment Facility
ESAF = Enhanced Structural Adjustment Facility
Figures may not add to totals shown owing to rounding.

Data: IMF Treasurer's Department

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highest-paid traditional civil servants. However, as the government began, in 1995/96, to monetize unevenly distributed noncash benefits, the effective spread between the lowest- and highest-paid employees became more obvious.

Another objective of salary reform was to pay civil servants a minimum acceptable salary for the most junior public service grade. The government recognized, however, that the concept of the minimum wage did not motivate staff and did not attract qualified outside workers. It also did not in itself solve the problem of a compressed salary structure. The concept of a "living wage" therefore replaced the concept of the minimum wage. In addition to providing for basic needs, the living wage takes account of social costs—such as health, education, transportation, and clothing. In 1996/97, the government began applying the concept of a living wage, but because of resource constraints, the targets were not reached for all groups. The reform accorded highest priority to increasing the salaries of the lowest-paid civil servants. Raising salaries of middle and senior managers has became a priority for the future.

Uganda: Civil Service Employment

	Central Government			District Total
	Ministries, police, and prisons	Teaching service	Total	
January 1990	. . .	. . .	320,000	. . .
June 1993	98,326	116,006	214,332	. . .
December 1993	74,926	95,838	170,764	. . .
June 1994	61,854	99,190	161,044	. . .
December 1994	50,906	96,141	147,047	. . .
June 1995	48,194	92,633	140,827	. . .
December 1995	34,192	89,046	123,238	33,456
June 1996	34,391	90,067	124,458	36,225
December 1996	33,563	93,370	126,933	36,480
June 1997	32,483	91,759	124,242	35,540
December 1997	31,206	93,458	124,664	34,853

Data: Uganda, Ministry of Public Service

Implementing Decentralization

Before the onset of reforms, Uganda's central government recruited, trained, and promoted district employees. Since district matters were, however, not always the center's highest priority, local government staffing needs were typically not met. Local governments sought to address this problem by hiring temporary, often poorly qualified, workers, and the quality and efficiency of public service provision suffered. The government has progressively transferred substantive political, administrative, and financial authority to the local level. The objective is to democratize local governments and increase local participation in decision making; build managerial capacity at the local level and increase efficiency in public service delivery; and promote self-sufficiency of local governments.

Local governments are now charged with delivering most public services—with certain exceptions, such as national defense—while the central government maintains its policymaking role. With administrative decentralization, local governments have gained the right to make their own employment decisions, and recruitment is being determined by the amount of resources provided to each district. Local governments are also free to establish and eliminate posts and departments. In response, most councils—the basic administrative units of the local governments—have retrenched workers and eliminated departments; the average number of departments per council fell from 20 in the early 1990s to 8 in 1997. At the same time, they have recruited more qualified staff and have contracted out several types of services—such as road maintenance and construction—to the private sector.

The government is also gradually implementing financial decentralization; local governments are permitted to keep over 60 percent of the revenues they collect through taxes, fees, and user charges. Although local governments have acquired the right to manage their own payrolls, in practice, most are still not able to do so. Inadequate locally generated revenues, a shortage of technical and administrative skills, and a lack of monitoring and transparency in the use of resources are key constraints to effective decentralization. The goal is for the majority of districts to be able to prepare their own monthly payrolls within three years. In the meantime, local governments continue to finance their expenditures primarily through transfers from the central government budget.

Next Steps

In the second, ongoing, stage of Uganda's public service reform, the emphasis is on improving public service performance and quality and adapting these to the requirements of decentralization. The central government will need to make further cuts as its functions become more decentralized. To enhance the efficiency, the government is introducing an outcome-oriented system by linking resource allocation to the provision of public services. Before the start of each fiscal year, each part of the public sector will clearly state its objectives, activities to be funded from the central budget, and, if feasible, relevant performance indicators. ■

This article draws on material prepared by Zuzana Brixiova and contained in a forthcoming IMF Staff Country Report on Uganda.