

IMF Gloomy on Growth, Sees Rising Inflation Threat

The IMF expects global growth to slow significantly in the second half of the year, before recovering gradually in 2009.

Updated forecasts in the IMF's *World Economic Outlook* (WEO), released July 17, also raise inflation projections, particularly for emerging markets and developing countries.

The WEO expects a moderation in global growth from 5 percent in 2007 to 4.1 percent in 2008 and 3.9 percent in 2009. Following a better-than-expected performance in the early part of 2008, WEO projections for the United States, the euro area, and Japan show a slowdown in activity in the second half of 2008.

Expansions in emerging and developing economies are also expected to lose further steam, with growth in these countries projected to ease to around 7 percent in 2008–09 from 8 percent in 2007. China's growth rate is expected to ease to around 10 percent in 2008–09 from near 12 percent in 2007.

"The global economy is in a tough spot, caught between sharply slowing demand in many advanced economies and rising infla-

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A fruit seller in Lima, Peru: the IMF has raised its inflation forecasts for emerging and developing economies.

Pilar Olivares/Reuters/Newscom

A Year After Crash, Risks Remain Elevated

A year after the subprime market crisis erupted in the United States, triggering financial market turmoil around the world, global financial markets continue to be fragile and systemic risks

remain elevated, the IMF said in its latest assessment.

"Credit quality across many loan classes has begun to deteriorate with declining house prices and slowing economic growth. Although banks have succeeded in raising additional capital, balance sheets are under renewed stress and bank equity prices have fallen sharply," the IMF's *Global Financial Stability Report (GFSR) Market Update*, released on July 28, said.

The *Update* notes that banks have been fairly successful in raising equity so far, amounting to about three-fourths of the writedowns to date, adding that IMF analysts had little reason to change earlier estimates of \$945 billion of aggregate potential losses from the crisis published in April

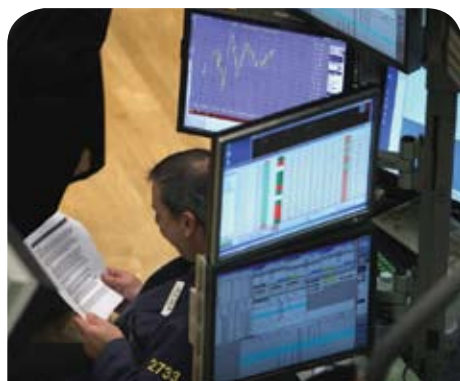
(continued on page 119)

Protecting Social Spending

The IMF is working to help low-income countries maintain—or, ideally, increase—spending on health and education, even as they struggle with the impact of sharp rises in food and energy prices (see article on page 124).

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Renewed financial stress has made raising additional capital more difficult for banks, the IMF says in latest assessment.

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WEO

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tion everywhere, notably in emerging and developing economies,” the *WEO* says.

Rising inflationary pressures

At the same time as the growth slowdown, the *WEO* notes, rising energy and commodity prices have boosted inflationary pressure, particularly in emerging and developing economies. In advanced economies, inflation pressures are likely to be countered by slowing demand and, with commodity prices projected to stabilize, the expected increase in inflation for 2008 is forecast to be reversed in 2009.

In emerging and developing countries, inflationary pressures are mounting faster, fueled by soaring commodity prices, above-trend growth, and accommodative macroeconomic policies. Hence, inflation forecasts for these economies have been raised by more than 1.5 percentage points in both 2008 and 2009, to 9.1 percent and 7.4 percent, respectively, and the moderation in inflation in 2009 will depend on more assertive tightening of monetary conditions.

At the July 9 summit of leaders of the Group of Eight industrial countries in Hokkaido, Japan, IMF Managing Director Dominique Strauss-Kahn said inflation should be the top concern of policymakers confronted by higher food and fuel prices. Strauss-Kahn called on leaders to act to prevent higher food and fuel prices from turning into generalized inflation.

Slowing demand

“In the recent past, the global economy has managed to take large shocks in stride, but we think its capacity to absorb them is being increasingly challenged,” IMF Chief Economist Simon Johnson told a July 17 press briefing in Washington. “How it will navigate through the latest turbulence in financial and commodity markets will crucially depend on how successfully policymakers respond to a fast-changing set of risks in many advanced and emerging economies.”

The *WEO* says the top priority for policymakers is to head off rising inflationary pressure while keeping sight of risks to growth. In many emerging economies, tighter monetary policy and greater fiscal restraint are required, combined in some cases with more flexible exchange rate management.

In the major advanced economies, the case for monetary tightening is seen as less compelling, given that inflation expectations and labor costs are projected to remain well anchored while growth is weakening, but inflation pressures need to be monitored.

Shift in purchasing power

The *WEO* notes that purchasing power in commodity-importing economies has been eroded. Credit conditions in advanced economies are expected to remain tight in the coming quarters, with banks gradually repairing their balance sheets but facing additional losses from weakening credit performance in the context of slowing economies.

Risks to the global growth outlook are seen by the *WEO* as balanced. Demand in advanced and emerging economies might be more resilient than projected to recent commodity price and financial shocks, as was the case during the first quarter of 2008. However, financial markets remain fragile, and inflation is a rising concern.

The risk of second-round effects from the surge in commodity prices complicates policymakers’ response to the slowdown, particularly in advanced economies, whereas in emerging economies stronger action is likely to be needed to cool activity and reverse rising inflation momentum. Additional oil and food price shocks would exacerbate inflation concerns, while further weakening consumption in importing countries. ■

For the full *World Economic Outlook Update*, see www.imf.org/external/pubs/ft/weo/2008/update/02/index.htm.

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(see chart). However, the renewed stress has made raising additional capital more difficult and increased the likelihood of a negative interaction between banking system adjustment and the real economy, the report added.

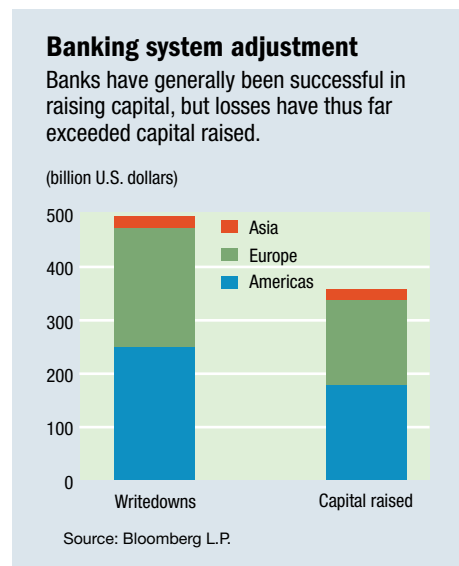
“At the same time, policy trade-offs between inflation, growth, and financial stability are becoming increasingly difficult. The resilience of emerging markets to the global turmoil is being tested as external financing conditions tighten and policy-makers face rising inflation,” it added.

Slowing global growth

The update was released 11 days after the IMF published its latest forecast for the world economy—now clouded by the impact of high energy prices and anxieties about rising inflation.

The IMF expects global growth to slow significantly from 5 percent in 2007 to 4.1 percent in 2008 and 3.9 percent in 2009. Updated forecasts in the IMF’s *World Economic Outlook (WEO)* also raised inflation projections, particularly for emerging markets and developing countries.

The IMF’s market assessment said that as banks seek to deleverage and economize on capital, assets are being sold and lending conditions are tightening, which will result in slower credit growth in the United States and euro area.



With inflation risks on the rise, the scope for monetary policy to be supportive of financial stability has become more constrained. In the first quarter of 2008, total U.S. private sector borrowing growth fell to 5.2 percent—a level last seen after the 2001 recession. With continuing pressures on banks to deleverage, this growth might slow further. One positive development has been the continuing resilience of investment-grade bond issuance, although high-yield and structured credit markets remain effectively shut.

Emerging markets remain relatively resilient to the credit turmoil thus far. However, as the crisis remains protracted, external funding conditions are tightening, and some emerging markets are coming under increased scrutiny, especially regarding their policies to address rising inflationary pressures.

The progression of the crisis has underscored the importance of moving forward with needed reforms, the report said.

Growing U.S. problems

The report stressed the need to stem the decline in the U.S. housing market to help both households and financial institutions recover. “At the moment, a bottom for the housing market is not visible,” the IMF report said. But it also noted that recent developments in affordability may provide support for house prices to stabilize.

House prices are softening in a number of European economies, prompting concerns over future loan losses in the mortgage, construction, and commercial property areas.

Uncertainty about their future losses and capital needs have prompted a sharp decline in the share prices of the U.S. housing government-sponsored enterprises (GSEs). The wide investor base in GSE



Jaime Caruana, Director of the IMF’s Monetary and Capital Markets Department.

IMF photo

debt (both domestic and foreign) and the current reliance of U.S. mortgage lending on agency securitization meant that systemic consequences would have arisen if confidence in GSE debt had seriously come into question. The recently passed legislation will support the GSEs and create an independent regulator. “The policy challenge is now to find a clear and permanent solution,” the report said.

Government responses

At a press briefing, Jaime Caruana, Director of the IMF’s Monetary and Capital Markets Department, said that extraordinary steps by central banks in mature markets had succeeded in capping systemic risk. “However, in the context of the deleveraging process and uncertainty about asset valuations, credit risks remain elevated, indicating that further raising of capital may be needed in a number of financial institutions,” Caruana stated.

“In this phase of the crisis, the nature of resolution strategies and the extent of government support have come into sharper focus. Financial market disruptions will still need to be dealt with on a case-by-case basis and there is no ironclad rulebook as to how to handle such instances in today’s more global environment. Prompt and transparent government responses, however, will go a long way to relieving the uncertainties.” ■

IMF to Enhance Impact of Its Technical Assistance

To ensure high impact, technical assistance provided by IMF experts and consultants is being better integrated with the IMF's economic monitoring and lending, as well as with country reform agendas.

The IMF is strengthening its technical assistance program by matching capacity building more closely with overall strategic objectives, introducing improved monitoring and performance measurement, and forging stronger partnerships with the donors who provide financing. In addition, the IMF is planning to open four more regional technical assistance centers around the world.

Unique linkages

For IMF Deputy Managing Director Murilo Portugal, the surveillance-lending-technical assistance relationship is a unique feature that brings important benefits: "The IMF is hardly alone as a technical assistance provider. However, what differentiates us from others in this field are the linkages between our technical assistance and other IMF operations."

IMF surveillance and lending operations help the institution to identify and prioritize technical assistance in line with both a country's strategic objectives and the IMF's policy advice, Portugal states. "When the IMF makes recommendations to countries within its surveillance and lending programs, in a number of cases it backs the implementation of those recommendations with technical assistance."

Coordination with country authorities

The nexus between the various aspects of IMF operations is becoming more evident in the way technical assistance is now planned in the IMF. The institution's five "area" departments, which are responsible for different regions around the world and are the primary link between the institution and member countries, have assumed the lead

role for setting technical assistance strategies in coordination with country authorities.

Presented in Regional Strategy Notes, these strategic plans articulate and prioritize the technical assistance needs of countries, and are set in a medium-term framework to ensure appropriate balance between short-term policy needs and medium-term capacity-building requirements.



An IMF expert conducts a training session.

Longer planning horizons also help the IMF enhance cooperation with other providers of technical assistance and facilitate fundraising. The IMF works with the World Bank, regional development banks, and other agencies and donors to ensure that assistance does not overlap and reflects the respective expertise of the relevant parties.

Core IMF function

Providing technical assistance is a core activity of the IMF. Measures to constantly improve its planning and delivery are therefore crucial to the IMF's continued ability to help countries build institutions and skills to design and implement macroeconomic policies that promote growth.

In the IMF's FY2008 alone, close to 200 "person-years" (or about 52,000 working days) of assistance were delivered to IMF member countries. Technical assistance is viewed as a significant benefit by many

countries, especially by the lower-income members who receive the bulk of such assistance.

Improving performance measurement

The IMF is also pursuing reforms to enhance the internal governance and performance measurement of its technical assistance. The institution is putting in place a strengthened framework to systematically track the achievement of objectives and deliverables in technical assistance projects.

These indicators are defined in advance by project managers, and results will then be assessed against them, which will allow for a more systematic evaluation and bring valuable fresh insights to the process. Matching results against initial plans helps ensure that when a shortfall in meeting project targets is identified, lessons can at least be derived to improve future activities.

As a corollary, any meaningful assessment of technical assistance results must necessarily involve a weighing of the costs of delivery. Accordingly, costing technical assistance activities is becoming more accurate and transparent. A clear understanding of costs will also enable more efficient allocation of resources, improve accountability, and facilitate raising additional external financing.

Stronger partnerships with donors

Improvements related to costing and performance measurement are of particular interest to donors who finance the IMF's technical assistance. The IMF has long partnered with donors, whose financial help has allowed it to continue meeting increasing country demands for its capacity-building services.

Alfred Kammer, Director of the IMF's Office of Technical Assistance Management, said the IMF's unique expertise, plus the technical quality and international span of its work, have served to attract much donor support for IMF technical assistance. "Donors tell us that they value our technical

assistance program both for its benefits to individual countries as well as for its broader role in promoting international growth and stability. We also value these partnerships because our support to member countries becomes more effective by forging a common platform for coordination and collaboration.”

New financing sources

The IMF is seeking to leverage the comparative advantages of its technical assistance to expand donor financing to meet the needs of recipient countries. This will entail not only a deepening of existing donor partnerships but also a broadening of the donor base by tapping into new financing sources.

An area where IMF-donor partnerships have proven especially effective is the pooling of donor funds to support IMF technical assistance. The IMF’s six regional assistance centers—in the Pacific; the Caribbean; East, West, and Central Africa; and the Middle East—are prominent examples of such an arrangement.

Each center receives the bulk of its funding from donor countries, international agencies, regional development banks, and sometimes from recipient countries themselves. Financial participation aside, the centers benefit from donor input by way of steering committees.

Comprising representatives from beneficiary countries, donors, and the IMF, these steering committees provide strategic guidance for the centers’ work programs, through a process that helps build consensus and shared ownership of technical assistance delivered. The IMF plans to establish four new regional centers—one in Central America, one in Central Asia, and two more in sub-Saharan Africa.

New trust funds

Building on the multidonor collaboration theme of the regional center model, the IMF is also developing a menu of topical trust funds to pool donor resources for technical assistance in selected areas of IMF expertise. Such trust funds will help highlight the links

between the IMF’s technical assistance and donors’ own overseas development strategies.

Trust funds could be formed for strengthening public financial management, combating money laundering and the financing of terrorism, developing statistics, managing natural resource wealth, assisting with debt sustainability and public debt/asset management, improving financial sector stability and development in low-income countries, and financing technical assistance to fragile states.

Apart from serving as a vehicle to channel donor resources to countries in need, such pooling arrangements would also facilitate coordination between donors of their respective assistance to countries, as contemplated under the Paris Declaration on Aid Effectiveness. Also, while regional centers tend to have a more “hands-on” approach focused on capacity building, topical trust funds would concentrate on specialized technical assistance on specific issues, creating important synergies from the two initiatives. ■

Ghana Aims for Firmer Fiscal Discipline Before Oil Flows

Ghana’s authorities are contemplating far-reaching reforms designed to further strengthen fiscal discipline and transparency and make effective use of prospective oil and gas revenues.

As Ghana is entering a new phase of development and is in transition to become what is sometimes called a “frontier” emerging market economy, new priorities have to be addressed. The IMF is helping the country deal with its rapidly changing needs.

Ghana has made impressive economic progress in recent years, with high and sustained growth. Nevertheless, fiscal indicators have worsened sharply. The fiscal deficit, including grants of about 5 percent of GDP, rose to just below 10 percent of GDP in 2007 and is projected to increase further in 2008. Government debt is also on the rise again, despite the recent debt relief that helped reduce the debt burden from 77 percent of GDP in 2005 to below 40 percent of GDP in mid-2006 (see Chart 1).

Corrective measures are urgently required. A loss of control over public

expenditure—in particular, subsidies to the state-owned electricity company, and a rapidly rising wage bill—are primary reasons for this deteriorating fiscal performance.

New developments

In addition, two important developments are likely to increase fiscal instability over the next few years. First, the authorities are proceeding with a fiscal decentralization strategy that will transfer many functions from central government to local governments in core areas, such as education and health, and substantially increase their borrowing powers.

Second, if the deposits are confirmed as commercially viable, Ghana will benefit from significant oil and gas resources that will generate revenues that are expected to rise from 3 percent of non-oil GDP starting in 2011 to about 5 percent of non-oil GDP from 2013 onward. However, these resources will need

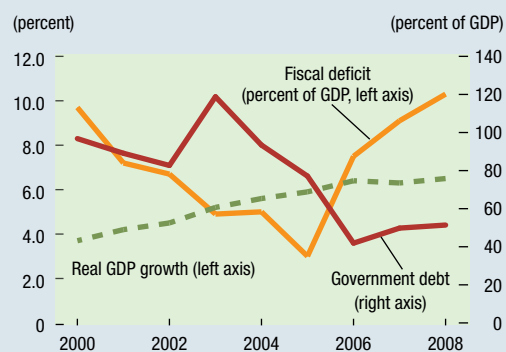
to be managed prudently if their economic potential is to be realized and good use made of the resulting revenues.

Since Ghana’s last IMF-supported program expired in 2006, the Fund has maintained a close policy dialogue with the authorities, including through bilateral

Chart 1

Deeper in debt

A loss of control over public spending is the main reason for Ghana’s worsening fiscal indicators.



Sources: National authorities; and IMF staff estimates and projections.

surveillance missions conducted by country specialists and through technical assistance missions staffed by experts in specific economic areas. IMF monetary and capital markets staff recently sent a mission to help the authorities strengthen the debt management strategy. Statistics experts have conducted several missions to help improve economic and financial data. Fiscal specialists have been helping Ghana improve public financial management, including through resident experts.

The authorities are currently designing a policy framework that would better anchor economic policy, especially monetary and fiscal policy, through an inflation targeting mechanism and a fiscal responsibility law (FRL). Building on the work of the IMF's country specialists, the Fund's fiscal experts have been advising the authorities on the measures they might take to address existing and new fiscal priorities.

Fiscal responsibility law

Finance Minister Kwadwo Baah-Wiredu announced in his 2008 budget that the government would introduce an FRL, based on the experience of implementing such laws in other countries. An FRL would ensure that the government's medium-term fiscal framework (MTFF) is open to public scrutiny (e.g., by publishing an annual fiscal strategy report); that comprehensive fiscal

information on central and local governments, decentralized agencies, and state-owned enterprises are made available; that reporting and financial oversight arrangements are strengthened; and that appropriate enforcement mechanisms are put in place to deal with cases where public funds are misused or misappropriated.

As part of the MTFF, the law might include a numerical fiscal rule in the form of a debt ceiling (under current circumstances, a prudent level of debt might be 45 percent of GDP). Without such a fiscal anchor, debt is likely to increase well beyond prudent levels. As shown in Chart 2, the rule could stipulate that the primary balance improve by a minimum amount of between 1 and 2 percent of GDP, whenever debt is above the ceiling. The primary balance is specified because it excludes interest payments, which are not entirely under government control.

Oil and gas revenues

The government has set up a wide-ranging review of policy issues related to the development of the oil and gas sector, including the fiscal regime. One option is to establish an oil and gas revenue fund. Resources from this fund could play an important role in financing the non-oil deficit, saving resources for future generations, and helping maintain macroeconomic stability.

Good international practice suggests that a revenue fund should be a separate account under the control of the treasury, that clear rules be established for transferring oil revenues into the account and making transfers to the budget to finance the non-oil deficit, that the fund be regulated by an investment strategy supervised by a professionally staffed investment committee, and that arrangements for regular reporting and independent audit of



Ghana could soon benefit from significant oil and gas revenues that will need prudent management.

the management and use of oil and gas resources be put in place.

A review of the fiscal regime for gold—where government revenues have been modest, despite buoyant export earnings, as a result of generous writeoff provisions and other tax breaks for gold producers—is also under way.

Public financial management

Although Ghana has been actively pursuing public financial management (PFM) reforms for many years, weaknesses persist in key areas, such as the medium-term expenditure framework, the computerized financial management information system—which remains in its pilot phase eight years after its initial launch—and the integrated personnel and payroll management system.

Dealing with these issues in a timely way will be critical to the successful implementation of an FRL and the fiscal consolidation process. The IMF's fiscal experts have recommended that management systems be given priority in the government's medium-term action plan for PFM reform.

Because sound PFM and management of natural resources wealth are an essential underpinning of good governance and effective and efficient use of domestic and aid resources in many countries, the IMF is exploring interest in establishing multidonor trust funds in these areas to galvanize support for its technical assistance to Ghana and other countries. ■

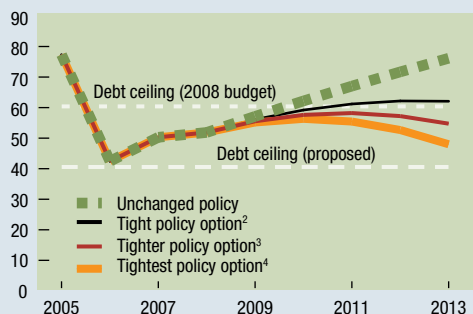
Richard Allen and Jacques Bougha-Hagbe
IMF Fiscal Affairs Department

Chart 2

Under the ceiling

Without a new ceiling proposed under a fiscal responsibility law, Ghana's government debt is likely to increase well beyond prudent levels.

(Government debt, primary balance,¹ percent of GDP)



Sources: National authorities; and IMF staff estimates and projections.

¹Excludes interest payments.

²Cuts primary balance by 1 percent of GDP each year.

³Cuts primary balance by 1.5 percent of GDP each year.

⁴Cuts primary balance by 2 percent of GDP each year.

IMF Works to Fight Money Laundering and Terrorism Financing

Money laundering and terrorism financing continue to plague many countries, threatening the integrity and stability of financial institutions and systems.

For the past seven years, the IMF has helped many countries strengthen their defenses in the battle against illicit activities. Countries have drawn on IMF assistance in drafting laws and regulations, and in developing strategies and methodologies for their financial sector supervisors. More generally, the IMF has helped countries develop the capacity of their financial sector supervisory agencies, financial intelligence units, and judicial officials.

The IMF assists its member countries by conducting assessments and providing technical assistance focused on legal, regulatory, and supervisory frameworks. A multidisciplinary unit within the Fund's Legal Department—known as the Financial Integrity Group—is responsible for implementing the IMF's mandate on anti-money laundering and combating the financing of terrorism (often referred to by the acronym "AML/CFT").

Strong corporate governance, rule of law, and integrity are the key ingredients of well-functioning, modern financial markets. Underpinning these elements are effective AML/CFT regimes consistent with international standards. In many countries, AML/CFT regimes also support effective tax enforcement and thus fiscal administration.

Typically, the IMF evaluates countries' compliance with international AML/CFT standards and develops programs to help them address the identified shortcomings. Demand for IMF assistance has increased steadily every year since the institution became fully involved in 2001. In the past two years alone, the IMF has conducted 12 AML/CFT assessments and

160 technical assistance missions in more than 150 countries.

Different nations, different solutions

Money laundering and terrorism financing vulnerabilities can impede much-needed remittance flows and access to international financial and payments systems. The work undertaken by the IMF's Financial Integrity Group in South America has resulted in several successful projects combining the Fund's cross-country expertise with local knowledge.

The IMF has provided core technical assistance services (legislative drafting, training for financial sector supervisors, and capacity building for relevant government agencies) across a wide range of its membership.

Some projects are also developed on a regional basis—including plans to develop AML/CFT supervisory practices in Central America and a risk assessment project in the Pacific. The IMF's regional training centers play a central role in these efforts because they provide the facilities for training large numbers of people from the regions served by the centers.

International standards

The IMF takes a flexible approach to AML/CFT technical assistance, taking into account a country's stage of development, institutional capacity, overall level of commitment, and identified priorities. Also part of the picture are the broader implications of AML/CFT controls for the financial sector, as well as how these controls fit with other measures called for by international standards for regulating the financial sector.

In countries with limited administrative resources, the Fund often focuses on legislative drafting and institution building in a way that respects the countries' economic limitations and other priorities.

Hands-on seminars and workshops are a key means of passing along knowledge.

Focus on emerging markets

Engagement with emerging markets has expanded as officials and market participants realized that controls to counter money laundering and terrorism financing foster a favorable environment for cross-border financial flows and contribute to effective tax administration.

Effective laws and sound institutions, together with good governance practices, are essential components of healthy financial systems. This is especially so in countries that may be more vulnerable to sudden shifts in international capital flows. The IMF hopes to establish a multi-donor trust fund in AML/CFT to galvanize support for its technical assistance programs in emerging market countries to meet the strong demand coming from these countries.

Collaboration and coordination of Fund technical assistance with other strategic global, regional, and bilateral partners and donors is a priority. Wherever possible, and in order to avoid duplication, IMF staff leverage resources by cooperating with other agencies and donors.

With the help of funding from Canada, the IMF recently completed a program of work on AML/CFT supervision with the Eastern Caribbean Central Bank. Work is ongoing on another Canadian-funded, multifaceted AML banking supervision project that will significantly benefit seven Central American countries.

In the future, AML/CFT assistance will be more project based, drawing on a range of external experts supported by a core unit of expert IMF practitioners. Priority will be given to systemically important countries and those that present particularly significant money laundering or terrorism financing risks. ■

IMF Is Helping Countries on Health, Social Spending Policies

As nations around the world grapple with the impact of high food and energy prices, the IMF is working with low-income countries to protect spending on health, education, and other services while addressing the inflation and balance of payments repercussions.

“It’s a bit of a balancing act,” says Adrienne Cheasty of the IMF’s Fiscal Affairs Department. “The IMF is keen for countries to maintain and even increase spending on health and education. But they are under growing pressure because of the rise in commodity prices.”

In general, spending on health and other social programs has risen in low-income countries that borrow from the IMF under its Poverty Reduction and Growth Facility (PRGF) (see table below).

These low-income countries also have benefited from unprecedented global growth over the past few years, and in many cases from debt relief provided by the IMF and others (see chart). But now that countries are facing a slowing world economy and rising inflation, the IMF is working to help them preserve the gains they have made, through additional lending and policy advice.

The IMF recently published a paper outlining the scale of the shock to low-income countries from the food and oil price hikes and suggesting policy adjustments to cope with the increases. IMF advice includes targeted transfer programs to help the poor.

As countries struggle to meet the Millennium Development Goals (MDGs), the IMF is also working with governments to



Clinic in Kono, Sierra Leone: The IMF is part of a global drive to raise health and living standards.

Sarah Bones/Global Action Foundation/Philadelphia Inquirer/MCT

improve both the use of aid money and the ability of governments to cope with increased levels of aid targeted at social sectors, such as health and education.

The IMF’s support for health

The IMF is part of a broad international effort to improve health and living standards, particularly in the world’s poorest countries. This broad approach involves, first and foremost, country governments and citizens, but also international organizations, nongovernmental organizations, and the private sector.

On the rise

Spending on social issues, including health, has risen under IMF concessional lending programs with poor countries.

(social spending in PRGF and non-PRGF developing countries¹)

	Sample size	Pre-PRGF year ²	Latest year available ³	Increase of the latest year from the pre-PRGF level
				(percent of GDP)
PRGF countries	41	5.8	6.3	0.5
Non-PRGF countries	46	7.8	7.8	0.0
				(percent of total government spending)
PRGF countries	41	22.3	24.1	1.8
Non-PRGF countries	46	24.4	25.2	0.9

Source: IMF and World Bank staff reports.

¹Data refer to the sum of public education and health spending and only cover developing countries with data available both for the pre-PRGF and for the latest year.

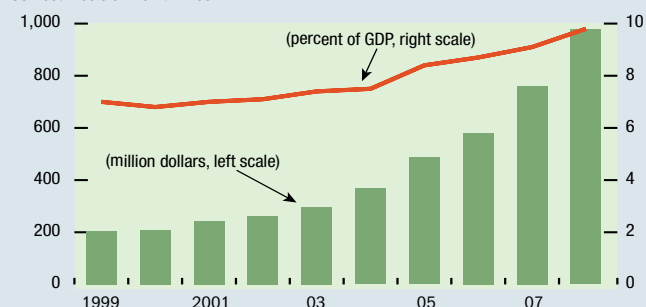
²For PRGF countries with programs in 1999–2007, the pre-PRGF year refers to the year preceding the first program; for non-PRGF countries, it refers to 2000, which is the mean pre-PRGF year for all program countries.

³Data for the latest year in the 2004–06 period.

Promising trend

Debt relief has enabled countries to direct more money toward poverty-reducing social spending.

33 Post-Decision Point HIPCs



Source: IMF.

Note: HIPCs = heavily indebted poor countries.

Through its policy advice and technical assistance, the IMF aims to make a contribution to strengthening health services—an essential step in raising incomes and standards of living. The IMF does not get involved in specifics of health spending and priorities, but actively supports achievement of the MDGs—three of which relate to health.

The IMF helps countries mobilize resources and create room in national budgets for higher social spending. In addition, PRGF-supported programs typically seek to protect priority sectors, which include spending on primary education and basic health care, from possible spending cuts. Indeed, in some cases these programs include specific floors on poverty-reducing spending. Moreover, IMF-supported programs and policy advice back the full use of all available aid.

Poverty reduction

The IMF also focuses on the ways that low-income countries can achieve the high levels of growth that can foster poverty reduction—mainly by providing policy advice, technical assistance, financial support, and debt relief.

In addition, the IMF tries to ensure that developed countries' policies are supportive of low-income countries' development efforts by backing the scaling up of aid, the opening of markets to developing countries' exports, and the maintenance of a stable international economic climate that can help developing countries grow.

Further, the IMF is a vocal advocate for expanding official development assistance from the industrial countries, including through new and increased contributions to the Global Fund to Fight AIDS, Tuberculosis, and Malaria. The IMF fully supports efforts to attack these diseases.

Campaign against AIDS

Alongside the World Bank and United Nations agencies, the IMF is working in the campaigns against HIV/AIDS and other diseases, such as malaria and tuberculosis.

The IMF is also collaborating to expand country-level HIV prevention and treatment programs. Such programs

are important components of many Poverty Reduction Strategy Papers (PRSPs), which are prepared by government agencies in collaboration with civil society and development partners. PRSPs provide the operational basis for concessional lending by the IMF and the World Bank and for debt relief under the Heavily Indebted Poor Countries (HIPC) Initiative.

Better budget management

A central principle of the IMF's economic policy advice is that public spending on critical social needs—health care and education—is among the most productive and responsible expenditures by a country.

The IMF, in cooperation with the World Bank and other development partners, is helping member countries improve their public financial management systems and ensure that funds, including those for health programs, are used efficiently and transparently. The IMF provides substantial technical assistance to help strengthen public financial management systems.

In addition, the IMF staff conducts extensive analytical and research work that informs policy advice to member countries, including on the macroeconomic and fiscal consequences of HIV/AIDS, and on other health issues.

The IMF has also provided technical assistance to member countries for improving the efficiency and effectiveness of health spending, particularly in transition economies. Indeed, this was an important part of the IMF's work, going back to the transition of eastern European countries from communism to market economies during the 1990s. ■

IMF Has Drastically Reduced Use of Wage Bill Ceilings

In July 2007, the IMF clarified its policies on ceilings on public sector wage bills in programs supported by the IMF's Poverty Reduction and Growth Facility (PRGF). The policy underscores that wage bill ceilings will be used only in exceptional circumstances. Critics had claimed that these ceilings had prevented low-income countries from using donor resources to expand employment in key poverty-reducing sectors such as health and education.

Today, not a single IMF-supported PRGF program includes a wage bill ceiling as a "performance criterion." That means that disbursement of an IMF credit does not require the authorities to limit the public sector wage bill. And only three PRGF programs (in Benin, Burundi, and Moldova) out of 23 include wage bill ceilings as an "indicative target." In other words, in these limited cases, IMF financing would not be interrupted even if the ceiling is not met.

In the rare cases where ceilings might remain necessary, Fund staff are asked to provide transparent justification for their use. At the same time, the IMF should incorporate sufficient flexibility in program designs to make room for scaled-up aid, particularly in the priority health and education areas. ■

IMF Casts Doubts on TB Study

The IMF has poured cold water on a Cambridge University study suggesting that IMF loans were linked to the spread of tuberculosis in eastern Europe and the former Soviet Union during the 1990s, saying that the researchers used a dubious methodology and the findings were not backed up by data.

An examination of the study by economists in the IMF Research Department called into question how the study was done.

"Severe methodological shortcomings limit the scope of these results and prevent any causal interpretation. The fundamental problem is that this study does not take properly into account that countries implement IMF-supported reforms in times of economic distress," the IMF's assessment said.

United States Sees First Nationwide Housing Slump in Four Decades

Considering the severity of the shocks it has faced, including the first nationwide decline in house prices in four decades, the U.S. economy has held up well so far, the IMF concluded in its recently completed annual consultation with U.S. authorities.

Substantial monetary and fiscal stimulus, buoyant net exports, and healthy corporate balance sheets have provided welcome support. However, their effect is being blunted by growing strains on household and bank finances and higher commodity prices. These strains, which have yet to fully feed through to domestic demand and activity, will take time to work out.

As a result, IMF staff projects that real GDP growth between the fourth quarter of 2007 and the fourth quarter of 2008 will be quite low and it will recover only gradually in 2009. Although inflation expectations have ticked up because of surging commodity prices, price pressures should be contained as commodity prices peak and economic slack rises.

Uncharted waters

The annual Article IV consultation covered uncharted waters, as U.S. authorities sought to cope with the effects of financial market turmoil that had its roots in the subprime mortgage market. This year the govern-

ment has had to rescue a major investment bank and the two main housing government-sponsored enterprises (GSEs), Fannie Mae and Freddie Mac.

The unusual nature of the ongoing crisis in the financial and housing sectors leaves the outlook highly uncertain. The outlook crucially hinges on the evolution of house prices (see Chart 1), and the dynamic interaction of the financial sector and housing cycles.

A more rapid recovery is clearly possible, given the substantial policy stimulus and forceful moves by financial institutions to repair their balance sheets. However, the economy is facing historically unprecedented shocks, financial conditions currently presage further tightening, and there is a worrisome possibility that weakening activity will feed back into further bank losses, generating a longer slowdown (see Chart 2).

Navigating through trying times

Dealing with the serious stresses in housing and financial markets has created the need for some creative thinking from the U.S. authorities—including new liquidity facilities from the central bank, the Federal Reserve. Those facilities, established to accommodate commercial banks with liquidity needs, were extended to invest-

ment banks this year, and authorities also announced that the facilities will be available to noncommercial banks until January.

In addition, a recently passed housing bill seeks to limit the impact of foreclosures on the economy. Earlier this year, the government provided substantial fiscal stimulus and the Federal Reserve provided significant monetary stimulus.

The U.S. economy is at an admittedly complex juncture. According to the IMF staff report, monetary policy should stay on hold for now. The staff noted that fiscal policy, which is providing support at a critical time, is constrained by medium- and long-term fiscal issues. The staff made a number of observations on macroeconomic and fiscal policies:

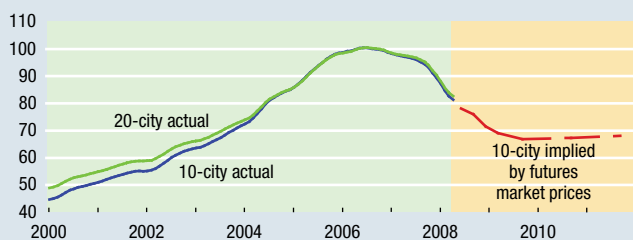
Monetary policy. Even though financial conditions are expected to remain tight, the real federal funds rate, the central bank's short-term policy rate, is already negative and, as a result, monetary policy is providing a robust response to recession risks. Meanwhile, although wage demands remain moderate, elevated headline inflation has begun to seep into near-term inflation expectations. Given the risks that medium-term expectations for inflation also begin to increase and the high cost of reversing such expectations once they become entrenched, the bias going forward should be toward a

Chart 1

U.S. house prices tumble

House prices in the United States have declined dramatically over the last year and are unlikely to recover soon.

(Case-Shiller house price indices, June 2006=100)



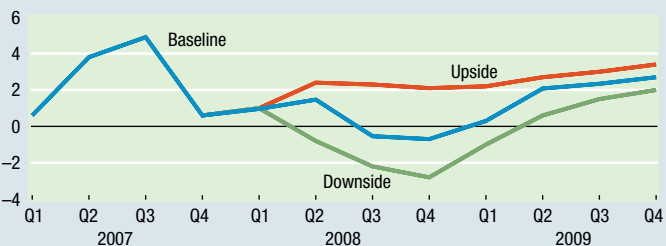
Source: Haver Analytics; Bloomberg, L.P.; and IMF staff calculations.

Chart 2

Sluggish growth

The crisis in the financial and housing sectors makes the outlook for the U.S. economy uncertain.

(Real GDP, percent change, annualized)



Source: IMF, *World Economic Outlook*, 2008; and IMF staff calculations.



Derelict house in Detroit, United States: Stresses in housing and financial markets will require creative thinking by U.S. authorities, the IMF says.

decisive tightening once recovery is established and financial conditions ease further.

Fiscal policy. The fiscal stimulus package was relatively well targeted toward those who are most likely to spend the money, and its rapid passage in Congress has ensured that its benefits are timely. While automatic stabilizers should be allowed to operate, in the face of significant medium-term fiscal challenges, any needed further government support should focus on using balance sheets to support housing and financial markets, such as the recently approved housing bill. A more ambitious medium-term target of fiscal balance excluding the social security surplus as well as major entitlement reform remains key to restoring fiscal sustainability.

Given the risks, the government should be prepared to widen support for housing and, if serious dislocations reappear, in financial markets, beyond that already provided for in the housing bill. Policies need to be mindful of moral hazard, that the housing sector is already the recipient of large tax subsidies, and that house prices still need to adjust down.

Still, there is a clear risk that prices could fall significantly below equilibrium, with painful economic results. The recently enacted housing package will serve to limit potential adverse developments, but further policy actions probably will be required.

For instance, major systemic financial disruptions could recur and, if they do, the U.S. Treasury could support market stability by significantly extending the term of asset swaps—a move similar to what has been done in the United Kingdom.

Implications for financial regulation

The housing boom revealed several weaknesses in financial regulation and supervision. Although private sector responses will plug some of the gaps, the treasury blueprint for financial reform, which includes many proposals highlighted in last year's IMF staff report, provides a sensible basis for comprehensive reform.

Pending further analysis, including under the Financial Sector Assessment Program, reform options could include reducing the procyclicality of bank lending (by augmenting risk-based capital ratios, for example) and bringing the oversight of major investment banks and GSEs closer to that of commercial-bank holding companies.

Finally, with liquidity having emerged as a major and underemphasized risk, draft recommendations from the Basel Committee will need to be implemented swiftly, taking into account U.S.-specific considerations. ■

Ravi Balakrishnan

IMF Western Hemisphere Department

IMF Survey

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Japan's Economy Slows, But Soft Landing Expected

Japan's economy has shown resilience to recent external shocks but is nonetheless slowing, the IMF says in its latest annual economic review of the country.

In its yearly Article IV consultation with Japan, the IMF says that the banking sector has withstood the worst of the global financial market wildfires that have swept across the globe in the past 12 months, and the economy has shown some resilience to surging commodity prices. Although consumer and business confidence declined, activity remained robust through the first quarter of 2008, aided by strong exports to emerging markets.

Timely liquidity provisions by the Bank of Japan (BoJ) and the financial sector's limited subprime exposure also helped cushion the effects of global financial pressures.

Most recently, however, activity has slowed in line with decelerating global growth and the deteriorating terms of trade. In the Article IV report, the IMF projects GDP growth to moderate to about 1½ percent in 2008–09, reflecting weaker business investment and private consumption. However, these projections are likely to be revised down in light of weak second quarter data.

Headline inflation has climbed in recent months to 2 percent, but underlying inflation (stripped of food and fuel prices) is still about zero and wages remain sluggish.

Soft landing

Although a soft landing is foreseen, the growth outlook remains subject to considerable uncertainty, particularly surrounding the depth of the U.S. slowdown. Highly volatile commodity prices also make inflation difficult to project. Nonetheless, with the downturn expected to be modest, and inflation still contained, the IMF's view is that current policy settings are broadly appropriate.

In particular, monetary policy should remain accommodative, fiscal policy should remain focused on medium-term chal-



Vehicles for export in Tokyo, Japan, where activity is being aided by strong exports to emerging markets.

Toshifumi Kitamura/AFP/Getty Images/Newscom

lenges, and continued efforts should be made to strengthen the financial sector. There is also a need to reinvigorate structural reforms.

Given current uncertainties, monetary policy is understandably in a “wait and see” mode, with the BoJ keeping policy rates on hold pending a better sense of whether downside risks to growth activity or upside risks to inflation will prevail. The process of normalizing interest rates that began in 2006 could then resume once downside risks to growth recede. Meanwhile, the BoJ has enhanced its communication regarding the outlook, which should help guide inflation expectations.

Longer-term horizon

Fiscal policy should consider a longer-term horizon in light of the need to bring down high public debt and make room for aging-related spending. Strong tax collections and cuts in public works have enabled the primary deficit (excluding social security) to be reduced sharply in recent years (see Chart 1).

Moreover, the authorities plan to eliminate the primary deficit altogether by FY2011. However, a more ambitious adjust-

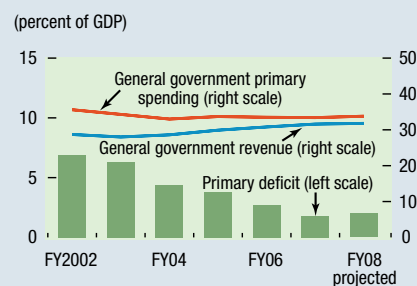
ment may be required to put the public debt ratio firmly on a downward path. This will not be easy, given that much of the room for expenditure reductions has already been utilized. Further fiscal consolidation will surely require revenue measures, including raising the consumption tax.

The government's intention to increase its contribution to the basic pension during FY2009 provides an opportunity to raise taxes. The public may be more receptive to a higher consumption tax rate if it is linked

Chart 1

Sharp reduction

Strong tax collections and cuts in public works have enabled Japan to sharply reduce its primary budget deficit.



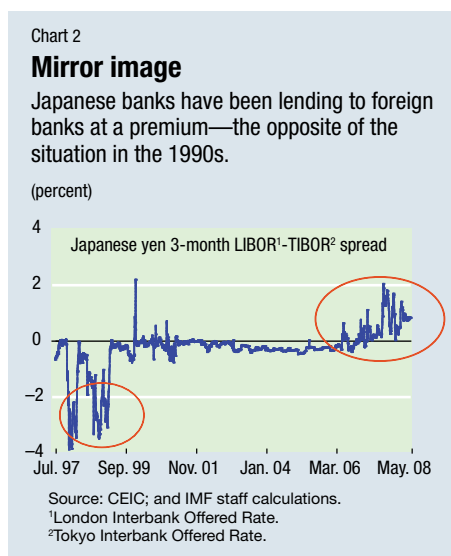
Source: IMF staff estimates.

to the need to fund social security. The government's plan to end earmarking of gasoline tax revenue for road-related spending from next year is also welcome.

Yen appreciation

Financial developments over the past year have been accompanied by an appreciation of the yen—by about 10 percent in real effective terms. Staff analysis suggests that the yen can be expected to strengthen further over the long run, particularly if structural reforms are implemented that yield widespread productivity gains. Nevertheless, the yen could remain weak in the short term owing to capital outflows driven by the declining home bias of Japanese investors.

Over the past year, the Japanese Financial Services Agency has taken important steps to monitor and disclose the exposure of the subprime losses. These measures have enhanced the transparency of Japanese



financial institutions, thereby supporting market confidence (see Chart 2).

But further steps to improve risk management and bolster capital cushions are necessary to strengthen the financial system and enhance financial intermediation. In

this context, the privatization of Japan Post Bank last year was a landmark reform.

Priorities to lift growth

The pace of structural reforms in Japan has slowed of late, in part reflecting concerns over widening inequalities. In recent years, dualities have become more pronounced across sectors, income groups, and regions.

Nonetheless, it is difficult to see Japan meeting its medium-term challenges without more vigorous structural reforms—as outlined in the Multilateral Consultation on Global Imbalances, and incorporated in the authorities' recently released FY2008 Basic Policies program.

Increasing labor market flexibility, enhancing product market competition, and encouraging inward foreign direct investment remain priorities. Such reforms will lift medium-term growth prospects and contribute to the orderly resolution of global imbalances. ■

Tough Choices for World Economy, Says IMF's Lipsky

With asset prices falling in many key markets, soaring energy and commodity prices stoking inflation, and global growth on a downturn, the world faces some difficult policy choices, IMF First Deputy Managing Director John Lipsky said in a wide-ranging speech, "Perspectives on the Global Economic Landscape and the Role of the Dollar."

Speaking at the Brookings Institution in Washington, D.C., on July 22, Lipsky said that high oil prices were creating new imbalances in the global economy. Although the depreciation of the dollar was helping reduce the U.S. current account deficit, it had not been sufficient to alleviate imbalances and risks. "Rather, new misalignments may be emerging and risks may be shifting," he stated.

Lipsky said policymakers around the world faced differing sets of challenges.

In advanced economies, where growth is projected to fall below potential in 2008 and 2009, supporting economic growth while stabilizing the financial system and managing inflation were key objectives. "The risk of second-round effects from

the surge in commodities prices and continued stress in financial markets is complicating the response to the slowdown," Lipsky said. "That said, inflationary pressures must be monitored closely, as allowing the past decades' gains in lowering inflation and inflation expectations to be lost would seriously undermine future economic progress."

In many key emerging market economies, combating rising inflation, resulting from both strong domestic demand growth and surging commodity prices, is the central challenge. Lipsky said that many central banks have raised policy interest rates in response to rising inflation, but interest rates generally remain negative in real terms, particularly in countries where exchange rate management has limited monetary policy flexibility. "There is a risk that many of these countries have fallen behind the curve in tightening policies," he said.

Lipsky also noted that financial market conditions remain difficult: "Forceful policy responses to the financial turbulence and encouraging progress toward bank recapitalization have represented important contributions. Nonetheless, indicators suggest that credit deterioration is widening and deepening as economic conditions weaken."

Achieving better balance in demand growth across countries is also needed to reduce global payments imbalances and boost confidence. Policy plans outlined in the IMF's Multilateral Consultation on Global Imbalances remain broadly appropriate for doing this, Lipsky said.

Key components of these plans include a reduction in the current account deficit in the United States through a shift toward greater domestic saving and improved net export performance; in China, structural reforms, along with increased flexibility of the renminbi with respect to a basket of currencies in order to support a rebalancing of Chinese growth toward domestic consumption; an increase in infrastructure and social spending in Saudi Arabia to alleviate supply bottlenecks and reduce the current account surplus; further progress on growth-enhancing reforms in Europe; and continued structural reform, including fiscal consolidation, in Japan. ■

Swaziland Faces Stagnant Growth, Financial Challenges

When the rest of sub-Saharan Africa was growing over the last decade, the economy of the Kingdom of Swaziland stagnated.

Swaziland's real per capita GDP growth declined from an annual rate of 2½ percent during 1980–94 to 0.7 percent since then. In contrast, real growth in all of sub-Saharan Africa has averaged 1½ percent annually since 1995, and in other lower-middle-income countries, growth averaged 7½ percent.

Poverty, inequality, and HIV/AIDS

The slow growth may have worsened already difficult conditions in the tiny, landlocked country, where in 2001, the latest year for which there is data, about two-thirds of its one million residents lived in poverty and 20 percent of the population claimed two-thirds of the income. A major contributor to the stagnating Swazi economy has been its financial sector, which, while in the main healthy, has taken steps backward in the past decade.

Some studies suggest that the deeper the financial system—that is, the more access businesses and individuals have to varied financial services—the better equipped it is to mobilize resources and the more important is its effect on growth, poverty reduction, and income equality. But Swaziland's banking system has, by almost any measure, become shallower. Private sector lending, money supply, and bank deposits as a percentage of GDP have all declined since 1995 (see chart), while high poverty and income inequality persist in a country that also has the highest incidence of HIV/AIDS in the world.

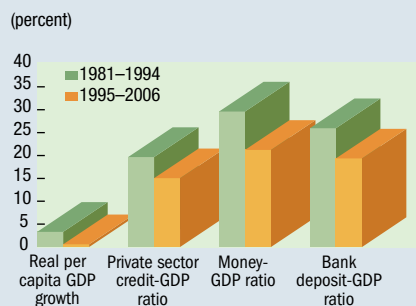
Financial and real economies linked

A number of important linkages between the real economy and the financial sector in Swaziland explain, at least in part, the country's performance:

- The country mobilizes *too little domestic saving* (8 percent of GDP) to finance investment, and foreign savings have fallen off since the 1980s and 1990s.
- *High government spending*, well beyond current revenues, has produced a large civil service wage bill that, together with poor selection and appraisal of public investment projects, has hurt growth.

Banking sector recedes

Swaziland's real per capita growth slowed markedly between 1981–94 and 1995–2006 at the same time that credit, money supply, and bank deposits as a percentage of GDP declined.



Sources: IMF's *International Financial Statistics*; World Bank's *World Development Indicators*.

- *Access to financing is limited*, which constrains financing of growth-enhancing investment projects. The commercial banking system has concentrated on export financing and bypassed a large portion of the adult population.
- Despite the sizable loans it receives from banks, the *export sector has not been an effective engine of growth and employment*.
- *Swaziland has a weak investment climate*, which tends to push up the cost of capital and the rate of return investors seek. With few viable real investment opportunities in Swaziland, most private domestic savings are invested in South Africa's deeper financial markets, which offer a wider array of financial services to a broader spectrum of investors.
- *The financial sector has become more vulnerable* as a result of inadequate regula-

tion and supervision of nonbank financial institutions (NBFIs), especially the savings and credit cooperatives (SCCOs) that have sprung up to fill the financial needs of the many Swazis abandoned by the commercial banking sector. Since 2002, lending by SCCOs has grown 116 percent, compared with 26 percent for banks.

- The depth of financial markets is further limited by lack of access to collateral for many borrowers. About 60 percent of the land is held in public trust and cannot be used by farmers, for example, to secure loans to invest in increasing agricultural yields.

What is to be done?

To improve its growth performance, mobilize savings, and diversify and strengthen its export sector, Swaziland should consider:

- *Identifying what constraints most hinder its growth* and, in the process, *assess the effects of continued dependence on temporary preferential trade treatments for exports*.
- *Taking steps to mobilize domestic savings* to finance investment that would be permanent and durable, perhaps diversifying the Swazi economy into sectors like mining and tourism.
- *Improving the investment climate*. Swaziland must reduce labor market rigidities, simplify business licensing, enforce contracts, widen the coverage of credit bureaus, and grant ownership rights to lands held in public trust. As a landlocked country, it should also reduce the cost of trade that crosses its borders.
- *Enhancing regulation and supervision of NBFIs*.
- *Scaling back government*. Reducing the excessive wage bill, subsidies, transfers, and unproductive investment can, over time, create room to allow the government to fight HIV/AIDS and allow the emergence of a private debt market to promote investment. ■

Hamid R. Davoodi
IMF African Department

IMF Helping to Improve Quality of Foreign Direct Investment Data

Direct investment provides recipient countries with financing and other resources, adding to economies' potential for output growth.

However, the quality and availability of direct investment data at the individual country and global levels can be improved. Ralph Kozlow, Division Chief, and Emmanuel Kumah, Deputy Division Chief in the IMF's Statistics Department, talk about a new IMF initiative—the Coordinated Direct Investment Survey (CDIS)—to improve the coverage and comparability of foreign direct investment data.

IMF Survey: What are you hoping to accomplish with the CDIS initiative? Have economies been receptive?

Kozlow: The CDIS is an IMF initiative to provide data on countries' direct investment positions by individual counterpart country—that is, it will show the source and destination of investment by individual country. All participating countries will collect and report data to the IMF on the geographical distribution of the stock of foreign direct investment in their economies, or “inward” direct investment—separately for equity and debt investment, by partner country—for December 31, 2009. Investing economies that can provide the data will also collect and report information on the stock of “outward” direct investment, separately for equity and debt investment, by partner country.

Our plans are to release initial results from the CDIS in late 2010 or early 2011, and comprehensive data should become available later in 2011. With this partner country dimension—the from-whom-to-whom dimension—countries will have access to data provided by their partner direct investment countries. The database that the IMF will release will enable countries to identify differences between their own direct investment data and the data



From left: Ralph Kozlow and Emmanuel Kumah of the IMF's Statistics Department.

IMF photo

compiled by partner countries, thereby highlighting areas where follow-up could lead to significant data improvements.

The CDIS initiative has been very strongly supported. To date, over 130 countries have responded positively to the invitation by the IMF's Managing Director to participate. This initiative builds on the success of the IMF-sponsored Coordinated Portfolio Investment Survey (CPIS), which is now conducted annually with more than 70 countries participating. I should also note that the IMF's interagency partners—including the Organization for Economic Cooperation and Development, the United Nations Conference on Trade and Development, the Statistical Office of the European Communities, and the European Central Bank, have strongly supported this initiative.

IMF Survey: Why are data on direct investment so difficult to compile? Or is it that countries don't want to share this type of information?

Kozlow: The main difficulty with compiling high-quality direct investment data is that it requires that countries' national agencies undertake enterprise surveys, and this, in turn, often poses several challenges. For instance, national statistical compilers need a good legal basis to conduct enter-

prise surveys if they are to achieve high response rates. Also, adequate resources for data collection, data editing, compilation, and dissemination are required. Good quality data also rest on compilers having a good understanding of direct investment concepts and definitions.

Countries that currently compile data on direct investment positions report these data to the IMF on a global basis, as needed in the context of producing international investment position statistics. Under the new initiative, they will provide geographical detail. However, data for certain individual partner countries may have to be suppressed to avoid revealing confidential data pertaining to one or a small number of reporting enterprises.

IMF Survey: Who are the main users of direct investment data?

Kumah: The main ones are policymakers in government (principally in ministries of finance and industry, and central banks), international organizations, research organizations, and academic institutions. Clearly, with the increasing interest in globalization and, in particular, in learning more about the benefits as well as risks of cross-border investment, the number of users is growing.

IMF Survey: Is this survey a one-off exercise or are there plans to conduct such surveys on a more regular basis?

Kozlow: At this point, this is a one-off exercise, but prospects are good that it will become an annual exercise. A decision will be taken in the next one to two years on whether to conduct it on a regular basis, as is the case for the CPIS. The Fund's interagency partners, participating countries, and the IMF Committee on Balance of Payments Statistics will be consulted on this question. ■

Togo Requests Flood Relief

President Faure Gnassingbé of Togo has requested emergency IMF financial support for his country, which has been hit by devastating floods.

IMF Managing Director Dominique Strauss-Kahn said he would recommend to the IMF Executive Board a rapid increase in existing financial support to Togo via the Poverty Reduction and Growth Facility (PRGF) arrangement.

"I offered my deepest condolences and sympathy to the people of Togo, and agreed that this is a very challenging time for them and the government," Strauss-Kahn said, underscoring the institution's strong commitment to the West African nation.

An IMF mission was scheduled to arrive in Togo's capital, Lomé, on August 27, as part of a regular review of Togo's \$108.4 million PRGF arrangement. Given the widespread flooding in the country, which has led to numerous deaths and injuries and caused significant economic disruption, Strauss-Kahn said a senior IMF economist would be sent to Togo ahead of the mission to focus on immediate actions to help the authorities and the donor community address the country's emerging needs.



Alain Bourron/PhotoPQR/SUD OUEST

Morocco Makes Strong Gains

IMF Managing Director Dominique Strauss-Kahn, in a statement at the end of his visit to Morocco, congratulated the Moroccan authorities on the country's strong economic gains in recent years, which have made it a "pillar of development" of the region.

Strauss-Kahn noted the need to sustain the current reform momentum, adding that increasing Morocco's openness to the global economy would help raise living standards and create jobs. And reducing subsidies over the medium term, he said, would create room to boost spending on investment and social programs as well as reduce public debt.

Strauss-Kahn's trip in late July also included a stop in Nouakchott, Mauritania, where he attended a seminar for African governors of the IMF and the World Bank.

2008 IMF–World Bank Annual Meetings

The Boards of Governors of the IMF and the World Bank normally meet once a year in autumn to discuss the work of their respective institutions. This year's Annual Meetings will be held on October 11–13 in Washington, D.C.

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New Book on Exchange Rate Analysis

Exchange rate analysis lies at the center of the IMF's surveillance mandate and policy advice. IMF staff analyze a variety of exchange rate issues in various member countries, both small and large, from the least economically developed to the most advanced, and from those whose currencies circulate only locally to those whose currencies are of global importance.

A new book, *Exchange Rate Analysis in Support of IMF Surveillance*, aims to give a flavor of the exchange rate topics the IMF staff typically examine, including the determination and impact of the real exchange rate, competitiveness and the equilibrium real exchange rate in specific countries or country groups, and considerations in the choice of exchange rate regime.

IMF Public Debt Managers' Forum

Public debt managers, central bankers, and representatives of the private sector gathered in Warsaw, Poland, for the 8th IMF Public Debt Managers' Forum.

The July 14–15 forum, which was cohosted by the National Bank of Poland and the Polish Ministry of Finance, attracted participants from a wide range of emerging market and mature market countries.

The IMF is uniquely placed to advance the understanding of macro-financial linkages, to make the right connections between events and trends, and to provide early warning of problems, IMF Deputy Managing Director Murilo Portugal said in introductory remarks.

Guinea Gets \$28.7 Million

The IMF Executive Board reviewed in late July Guinea's performance under a three-year Poverty Reduction and Growth Facility arrangement and approved a \$35 million augmentation of the arrangement. The review's completion triggered an immediate disbursement of \$28.7 million. These additional resources, together with donor support, should help lessen the impact of the recent surge in oil and food prices on the country.

"It will be important to target measures to alleviate the impact of higher food prices on the most vulnerable," IMF Deputy Managing Director Murilo Portugal said, adding that the country would need to curtail nonpriority expenditures.



Georges Gobet/AFP