Box 1

The IMF's Response to the Asian Crisis

In seeking to restore confidence in the region in the wake of the Asian crisis, the IMF responded quickly by:

- helping the three countries most affected by the crisis—Indonesia, Korea, and Thailand—arrange programs of economic reform that could restore confidence and be supported by the IMF. The Philippines' existing IMF-supported program was extended and augmented in 1997, and a Stand-By Arrangement was approved in 1998;
- approving some SDR 26 billion of IMF financial support for reform programs in Indonesia, Korea, and Thailand and spearheading the mobilization of some $77 billion of additional financing commitments from multilateral and bilateral sources in support of these reform programs in 1997. In mid-1998, the IMF's committed assistance for Indonesia was augmented by SDR 1 billion, with an estimated $5 billion from multilateral and bilateral sources. Of the commitments to all three countries, some SDR 18 billion had been disbursed by the IMF by July 23, 1998. (See table.); and
- intensifying its consultations with other members both within and outside the region that, although not necessarily requiring IMF support, were affected by the crisis and needed to take policy steps to ward off contagion.

Commitments of the International Community and Disbursements of the IMF in Response to the Asian Crisis, as of July 23, 1998[1]

(Billions of U.S. dollars)

	Commitments				
Country	IMF	Multilateral[2]	Bilateral[3]	Total	IMF Disbursements
Indonesia	11.2	10.0	21.1[4]	42.3	5.0
Korea	20.9	14.0	23.3	58.2	17.0
Thailand	4.0	2.7	10.5	17.2	2.8
Total	**36.1**	**26.7**	**54.9[4]**	**117.7**	**24.8**

[1]IMF commitments to the Philippines are not included.
[2]World Bank and Asian Development Bank.
[3]Bilateral contributions to Indonesia and Korea were a contingent second line of defense.
[4]Estimate; amount of new commitments not finalized as of July 23, 1998.

To implement its response to the crisis, the IMF:

- used the accelerated procedures established under the Emergency Financing Mechanism and the exceptional circumstances clause to meet the exceptional needs of the member countries in terms of approval time and access. This was followed by close monitoring of performance under the programs on a continuing basis and the approval of a number of adaptations to the original programs in light of developing circumstances;
- created the Supplemental Reserve Facility to help members experiencing exceptional balance of payments difficulties owing to a large short-term financing need resulting from a sudden loss of market confidence;
- stepped up coordination with other international financial institutions, notably the World Bank and the Asian Development Bank, and with bilateral donors, to augment international support for the affected countries' economic reform programs;
- strengthened its dialogue with a variety of constituencies in the program countries, including consultations with opposition and labor groups and extensive contacts with the press and the public;
- provided staff support to coordinate efforts by international creditor banks and debtors in the affected countries to resolve the severe private sector financing problems at the heart of the crisis;
- posted on the IMF website—with the consent of the governments of Indonesia, Korea, and Thailand—their Letters of Intent, describing in detail their IMF-supported programs, so that details of the programs would be readily available to all interested parties; and
- reinforced means of communication with officials and support for their efforts at consensus building through the appointment of former IMF Deputy Managing Director Prabhakar Narvekar as Special Advisor to the President of Indonesia; the establishment of resident representative posts in Korea and Thailand (in addition to the existing post in Indonesia); and the work of the IMF's new Asia and Pacific Regional Office (see Chapter VI).

Box 2

Second-Generation Reforms

Although macroeconomic stability, liberalization, and the basic institutional framework of a market economy are essential for strong growth, the IMF's experience with its member countries has shown that deeper and broader-based reforms are necessary to achieve high-quality growth that is sustainable and more equitably shared. Such reforms—so-called second-generation reforms—cover a number of areas highlighted most recently by the Asian financial crisis.

The IMF, in collaboration with the World Bank, has been contributing to second-generation reforms in member countries through its surveillance (along with other international organizations as appropriate), technical assistance, and financing, on several fronts:

- helping members strengthen the efficiency and robustness of their financial sectors, including through appropriate prudential oversight;
- helping members enhance the transparency of fiscal policy and practices and the quality, timeliness, and dissemination of economic and financial data to reduce the risk of disruptive changes in investor confidence when economic or financial problems appear;
- helping members improve governance by establishing a simple and transparent regulatory environment and a professional and independent judicial system that will uphold the rule of law, including property rights;
- assisting members in redefining the role of the state in the economy as a positive force for private sector activity, including through the restructuring and privatization of state-owned enterprises and by generally reducing government intervention in areas where market forces provide greater efficiency;
- helping improve the quality of public expenditure in member countries, for example, through greater attention to education and health spending; and
- helping members promote greater flexibility of labor markets.

Box 3

Enhancing Information on Article IV Consultations

Since May 1997, the Executive Board has been issuing Press (now "Public") Information Notices (PINs) following the conclusion of Article IV consultations with members. PINs set out:

- a background description of the country's economic situation at the time of the consultation;
- the Board's assessment of that situation and the country's policies as detailed in the Chairman's summing up of the Board's discussion; and
- a table of selected economic indicators.

PINs are issued on a voluntary basis, at the request of countries seeking to make public the views of the IMF on their policies and prospects. Of the 136 consultations completed during 1997/98, 77 resulted in the issuance of PINs (see Table 7). The full text of PINs is available on the IMF's website (http://www.imf.org). Collections of PINs are also being published three times a year in a new IMF publication, *IMF Economic Reviews;* the first issue was released in May 1998.

Box 4

IMF Regional Office for Asia and the Pacific

The establishment of a new Regional Office for Asia and the Pacific in Tokyo reflects the importance of the Asia-Pacific region in the global economy and for the work of the IMF. The Director of the Office, Kunio Saito, administers a staff of 10. The main functions of the Office include the following:

- *Regional Policy Forums.* The Office is responsible for the IMF's dialogue with Asian policymakers that is conducted through various regional policy forums, including the Manila Framework Group, Asia-Pacific Economic Cooperation (APEC), Association of South East Asian Nations (ASEAN), and the Executives' Meeting of East Asian and Pacific Central Banks and Monetary Authorities (EMEAP), and for facilitating regional and mutual surveillance activities. The Manila Framework Group brings together deputies from ministries of finance and central banks of 14 economies across the region. It is the principal new grouping aimed at strengthening surveillance, enhancing cooperation, and promoting financial stability in the region. The Regional Office provides the Secretariat for this Group.
- *Financial Market Surveillance*. The Office monitors and analyzes financial markets in the region with a view to ensuring that the IMF has timely and comprehensive knowledge of market developments and trends. This analysis deepens the IMF's understanding of economic developments in the region and is an important element in strengthening surveillance.

The Office also undertakes a wide range of external relations activities, and facilitates the delivery of technical assistance and training in the region.

Box 5

Code of Good Practices on Fiscal Transparency: Declaration on Principles

The Code's main provisions are as follows:

Clarity of Roles and Responsibilities

- The government sector should be clearly distinguished from the rest of the economy, and policy and management roles within government should be well defined.
- There should be a clear legal and administrative framework for fiscal management.

Public Availability of Information

- The public should be provided with full information on the past, current, and projected fiscal activity of government.
- A public commitment should be made to timely publication of fiscal information.

Open Budget Preparation, Execution, and Reporting

- Budget documentation should specify fiscal policy objectives, the macroeconomic framework, the policy basis for the budget, and identifiable major fiscal risks.
- Budget estimates should be classified and presented in a way that facilitates policy analysis and promotes accountability.
- Procedures for the execution and monitoring of approved expenditures should be clearly specified.
- Fiscal reporting should be timely, comprehensive, and reliable and identify deviations from the budget.

Independent Assurances of Integrity

- The integrity of fiscal information should be subject to public and independent scrutiny.

Box 6

Dissemination Standards Bulletin Board

The DSBB is a tool for market analysts and others who track economic growth, inflation, and other economic and financial developments in countries around the world. It describes the statistical practices—such as methodologies and data release calendars—of countries subscribing to the Special Data Dissemination Standard (SDDS) in key areas: the real, fiscal, financial, and external sectors. It also describes steps subscribers have taken to improve practices to move toward full observance of the SDDS by the end of the transition period.

Beginning in April 1997, electronic links (hyperlinks) between the bulletin board and actual data on national data sites have been established, enabling users to move directly from the bulletin board to current economic and financial data on an Internet site maintained by the subscriber. (The links do not indicate IMF endorsement of the data.) The bulletin board can be accessed on the Internet at http://dsbb.imf.org, or through the IMF's website, http://www.imf.org.

Subscribers to the SDDS as of the end of April 1998 are listed below; those for which hyperlinks were in place are indicated by an asterisk:

Argentina*	France	Korea	Singapore*
Australia	Germany	Latvia	Slovak Republic
Austria	Hong Kong SAR*	Lithuania	Slovenia*
Belgium	Hungary	Malaysia	South Africa*
Canada*	Iceland	Mexico*	Spain
Chile	India	Netherlands	Sweden
Colombia*	Indonesia	Norway	Switzerland*
Croatia	Ireland	Peru*	Thailand
Czech Republic	Israel*	Philippines	Turkey*
Denmark	Italy	Poland	United Kingdom*
Ecuador	Japan*	Portugal	United States
Finland			

Box 7

How the GDDS Will Work

Participation in the General Data Dissemination System (GDDS), which is voluntary, consists of three steps:

- commitment to using the GDDS as a framework for statistical development;
- designation of a country coordinator; and
- preparation of descriptions of current statistical production and dissemination practices, and plans for short- and long-term improvements in these practices that could be disseminated by the IMF on the Internet.

The GDDS will be implemented in two phases. The first will focus on education and training, and the second on direct country work. The training phase will include eight regional seminars and workshops, beginning in mid-1998 and ending in the fall of 1999, for up to 120 member countries. Following the training phase, IMF staff will work directly with member countries to assist them in assessing their practice against those of the GDDS and developing plans for improvement.

As of April 1998, some 25 countries had indicated preliminary interest in the GDDS by appointing a country coordinator. Formal invitations to participate have been sent to all member countries that have not subscribed to the Special Data Dissemination Standard (SDDS) following completion of guidance materials on the GDDS.

Box 8

A Methodology for Exchange Rate Assessments

Oversight of members' exchange rate policies is at the core of the IMF's surveillance mandate. The methodology used for assessing the appropriateness of current account positions and exchange rates for major industrial countries embodies four steps:

- applying a trade-equation model to calculate the underlying current account positions that would emerge at prevailing market exchange rates if all countries were producing at their potential output levels;
- using a separate model to estimate a normal or equilibrium level of the saving-investment balance consistent with medium-run fundamentals, including the assumption that countries were operating at potential output;
- calculating the amount by which the exchange rate would have to change, other things being equal, to equilibrate the underlying current account position with the medium-term saving-investment norm; and
- assessing whether the estimates of exchange rates consistent with medium-term fundamentals suggest that any currencies are badly misaligned.

Box 9
Group Travel by Executive Directors

Travel by a group of Executive Directors to selected countries was initiated to help broaden Directors' understanding of the economic problems and policies in individual member countries, with a view to enhancing their contribution to Board discussion of member country policies. In February 1998, a group of Directors traveled to Cameroon, Côte d'Ivoire, and Mali. Previous group trips were to Egypt, Jordan, and the Republic of Yemen in June 1996; and to Georgia, Hungary, and Ukraine in October 1996.

In reviewing the trial program of group travel by Executive Directors in June 1997, the Board agreed that the number of annual trips should be flexible, but the aim would normally be for two trips a year, each to two or three countries. Many thought the focus should be on program and intensive-surveillance countries, and that participation by a Director (or Directors) from a program country in a group visit would be useful, but they favored maintaining flexibility in the selection process.

Box 10
ESAF Resources

Given the Board consensus that the ESAF was, and should remain, the centerpiece of the IMF's support for the poorest countries—including in the context of the HIPC Initiative—Directors agreed in September 1996 on a framework for continuing ESAF operations. Existing ESAF resources are expected to meet demands until about the end of 2000. Resources to fund a *self-sustained ESAF,* with a commitment capacity of about SDR 0.8 billion a year, will then become available in the year 2005, or perhaps earlier, as reserves previously set aside to provide security for ESAF lenders against the risk of nonpayment by borrowers are freed as lenders are repaid. This will leave an *interim ESAF* period of about four years during which financing of an estimated SDR 1.7 billion will need to be mobilized to cover interest subsidies. In addition, SDR 1.1 billion is estimated to be needed for special ESAF operations under the HIPC Initiative.

Box 11
Strengthening ESAF-Supported Programs

The main recommendations of the internal review of ESAF for the design of future programs called for:

- stronger and reoriented fiscal adjustment based on durable cuts in budget outlays, particularly from civil service reform and reduced support for public enterprises, while protecting growth-enhancing expenditures on health and education;
- more resolve in reducing inflation to single-digit levels through the use of monetary or exchange rate anchors where appropriate;
- a more concerted effort to adopt so-called second-generation reforms, especially enhanced trade liberalization, public enterprise reform, bank restructuring, and strengthened property rights; and
- steps to reduce policy slippage and encourage more sustained policy implementation, including through more intensive program monitoring in selected cases, greater use of contingency planning in program design, and more proactive technical assistance to build institutional capacity.

Box 12
Key Findings of External Evaluators of the ESAF

In reviewing the ESAF, the external evaluators offered the following recommendations:

Social Impact

- The IMF should seek ex ante assessments by the World Bank of the likely impact that ESAF-supported programs would have on the incomes of the poor and of the real projected value of social service provision. These impact assessments could be taken into account at the program design stage and should be updated during program implementation.
- In program design, the IMF should explicitly analyze trade-offs between the short run and long run. The analysis would address sequencing issues, front-loading of structural reforms, and the efficiency costs of revenue measures.
- In the area of fiscal policy, IMF–World Bank collaboration should be increased to allow for more joint analysis and to address overlaps concerning the macroeconomic concerns of the IMF and the microeconomic concerns of the Bank.
- The ESAF should have a new role in the poststabilization environment to help reforming governments build reputations and to enable the IMF to play a role in potential ESAF countries that currently reject the facility.

External Viability

- ESAF financing should be provided as budget support, rather than to central banks.
- Equal or more weight should be given to indicators that relate total debt and debt service to GDP rather than to the traditional export-based indicators, as the latter are overly sensitive to an economy's openness.

Ownership and Governance

- Countries have primary responsibility for economic reform programs and should develop and build a consensus behind a program capable of achieving sustainable growth. The IMF should make the negotiation process and conditionality regime more supportive of country ownership.
- Specifically, the IMF should ensure greater flexibility in the negotiating frameworks (e.g., formulate alternative program paths through negotiation, leaving it to the country to decide, with IMF staff advice, what best suits its circumstances); develop systematic mechanisms for ex post support for country-initiated programs; strengthen resident representative missions in ESAF countries; engage in regular informal policy dialogue with the country's political leadership; and find ways to improve the IMF's image.
- Countries should create economic management teams comprising representatives of economic and social sector ministries and political leaders to oversee the reform process and hold national conferences where alternatives and trade-offs can be openly debated.

Box 13

Interim Committee Statement on Liberalization of Capital Movements Under an Amendment of the IMF's Articles, as Adopted, Hong Kong SAR, September 21, 1997

1. It is time to add a new chapter to the Bretton Woods agreement. Private capital flows have become much more important to the international monetary system, and an increasingly open and liberal system has proved to be highly beneficial to the world economy. By facilitating the flow of savings to their most productive uses, capital movements increase investment, growth, and prosperity. Provided it is introduced in an orderly manner, and backed both by adequate national policies and a solid multilateral system for surveillance and financial support, the liberalization of capital flows is an essential element of an efficient international monetary system in this age of globalization. The IMF's central role in the international monetary system, and its near universal membership, make it uniquely placed to help this process. The Committee sees the IMF's proposed new mandate as bold in its vision, but requiring cautious implementation.
2. International capital flows are highly sensitive to, among other things, the stability of the international monetary system, the quality of macroeconomic policies, and the soundness of domestic financial systems. The recent turmoil in financial markets has demonstrated again the importance of underpinning liberalization with a broad range of structural measures, especially in the monetary and financial sector, and within the framework of a solid mix of macroeconomic and exchange rate policies. Particular importance will need to be attached to establishing an environment conducive to the efficient use of capital and to building sound financial systems solid enough to cope with fluctuations in capital flows. This phased but comprehensive approach will tailor capital account liberalization to the circumstances of individual countries, thereby maximizing the chances of success, not only for each country but also for the international monetary system.
3. These efforts should lead to the establishment of a multilateral and nondiscriminatory system to promote the liberalization of capital movements. The IMF will have the task of assisting in the establishment of such a system and stands ready to support members' efforts in this regard. Its role is also key to the adoption of policies that would facilitate properly sequenced liberalization and reduce the likelihood of financial and balance of payments crises.
4. In light of the foregoing, the Committee invites the Executive Board to complete its work on a proposed amendment of the Fund's Articles that would make the liberalization of capital movements one of the purposes of the Fund and extend, as needed, the Fund's jurisdiction through the establishment of carefully defined and uniformly applied obligations regarding the liberalization of such movements. Safeguards and transitional arrangements are necessary for the success of this major endeavor. Flexible approval policies will have to be adopted. In both the preparation of an amendment to the IMF's Articles and its implementation, the members' obligations under other international agreements will be respected. In pursuing this work, the Committee expects the IMF and other institutions to cooperate closely.
5. Sound liberalization and expanded access to capital markets should reduce the frequency of recourse to Fund resources and other exceptional financing. Nevertheless, the Committee recognizes that, in some circumstances, there could be a large need for financing from the Fund and other sources. The Fund will continue to play a critical role in helping to mobilize financial support for members' adjustment programs. In such endeavors, the Fund will continue its central catalytic role while limiting moral hazard.
6. In view of the importance of moving decisively toward this new worldwide regime of liberalized capital movements, and welcoming the very broad consensus of the membership on these basic guidelines, the Committee invites the Executive Board to give high priority to the completion of the required amendment of the Fund's Articles of Agreement.

Box 14

IMF Institute and Regional Institutions

Europe. The IMF, in collaboration with the World Bank and certain other international institutions, has established the Joint Vienna Institute (JVI) to provide training to officials of former centrally planned economies that are in transition to market-based systems. In addition to a comprehensive course in applied market economics jointly presented by all sponsoring organizations, the IMF Institute and other IMF departments offer an extensive seminar program covering macroeconomic analysis and policy, banking supervision, payment systems, monetary and exchange operations, fiscal policy, public expenditure management, value-added taxes, social safety nets, financial sector law, and macroeconomic statistics. Recently the Board extended the IMF's support for the JVI for another five years.

Capacity building in Africa. The Institute has a long-standing cooperative relationship with the regional training institutions in Francophone Africa, namely, the training centers of the Central Bank of West African States (West African Training Center for Banking Studies—COFEB) and the Bank of Central African States. The Institute offers a yearly regional course on Financial Programming and Policies or External Sector Policies, as well as periodic lecturing assistance to the centers. The regional courses benefit from cofinancing from the United Nations Development Programme and the European Union. In collaborating with these centers, the Institute continues to place emphasis on "capacity building" by training trainers, both in financial macroeconomics and in managerial fields linked to teaching.

To respond to the growing need for training in Africa, the Institute helped establish in 1997 the nine-member Macroeconomic and Financial Management Institute of Eastern and Southern Africa (MEFMI) in Zimbabwe and the West African Institute for Financial and Economic Management (WAIFEM) in Nigeria.

Asia. Effective May 4, 1998, the IMF-Singapore Regional Training Institute (STI) commenced the offering of training on policy-related economics to selected government officials, mainly from developing countries in the Asia and the Pacific region. In 1998/99, 13 courses and seminars are scheduled on macroeconomic adjustment and reform policies, financial programming, the problems of transition economies, monetary and exchange operations, public finance, banking supervision, and macroeconomic statistics. The STI is viewed as a precursor to similar regional training centers in other parts of the world.

South-East Asian Central Banks Research and Training Center (SEACEN). Relations between the IMF Institute and SEACEN (Kuala Lumpur, Malaysia) developed in the 1970s when the Institute began to send senior staff to assist SEACEN in the formulation of its training program. Since the early 1980s, the Institute has also provided lecturing assistance to SEACEN and coordinated lecturing assistance from other IMF departments, and in the early 1990s began to conduct joint courses.

The Arab Monetary Fund. The IMF Institute has maintained a close relationship with the training branch of the Arab Monetary Fund (AMF), the Economic Policy Institute (EPI), since its inception in 1988. Since then, it has regularly provided the EPI with lecturing assistance in connection with the AMF course on Macroeconomic Management and also participated in the AMF course on External Sector Management, first offered in March 1995. Cooperation between the IMF Institute and the AMF includes joint courses and seminars and participation by Institute staff in AMF-sponsored seminars.

In addition, the Institute has been providing lecturing assistance for courses organized by the Center for Latin American Monetary Studies for several years; has been cooperating with the Islamic Development Bank on regional training courses since 1994; and conducted its first cooperative training venture with the Asian Development Bank in 1995.

Box 15

Operational Budget

The quarterly operational budget is the mechanism through which the IMF makes its resources available to member countries. Reflecting the cooperative character of the IMF and the revolving nature of its resources, IMF financial assistance is provided through the use of SDRs and the currencies of a wide range of members—large and small, including advanced, developing, and transition economies. Members whose balance of payments and reserve positions are judged sufficiently strong for their currencies to be included in the operational budget make foreign exchange available to members with weak balance of payments positions in need of external financing. In return for the use of their currencies through the operational budget, members receive a liquid claim on the IMF that earns a market-related rate of return.

Guidelines underlying the preparation and implementation of the operational budget are established by the Board. During 1997/98, the Board reviewed the procedures governing the assessment of members' balance of payments and reserve strength. It concluded that assessments should continue to rely on a relatively simple system, based on criteria set out in the Articles of Agreement (balance of payments and reserve positions and developments in exchange markets), supplemented by a small set of additional indicators bearing on a member's external financial strength, including in particular indicators of short-term external debt and debt service.

Box 16

Designation Plan

Article XIX of the IMF's Articles of Agreement provides for a designation mechanism under which participants whose balance of payments and reserve positions are deemed sufficiently strong are obliged, when designated by the IMF, to provide freely usable currencies in exchange for SDRs up to specified amounts. The designation mechanism ensures that, in case of need, participants can use their SDRs to obtain freely usable currencies at short notice. To ensure that such use is not for the sole purpose of changing the composition of reserves, a participant wishing to sell SDRs in a transaction with designation is required to make a representation to the IMF that it has a need to use its SDRs.

The designation mechanism is executed through quarterly designation plans, approved by the Board, which list participants subject to designation and set maximum limits to the amounts of SDRs that they can be designated to receive during the quarter. Apart from a participant being "sufficiently strong" for designation, the amounts of designation for individual participants are determined in a manner that over time promotes equality in the "excess holdings ratios" of participants (i.e., SDR holdings above or below allocations as a proportion of participants' official gold and foreign exchange reserves).

Since September 1987, there have been no transactions with designation because potential exchanges of SDRs for currencies have been accommodated through voluntary transactions by agreement with other participants, primarily the 12 participants that have established with the IMF standing arrangements to buy or sell SDRs for one or more freely usable currencies at any time, provided that their SDR holdings remain within a certain range. These arrangements have helped accommodate members' desires to both buy and sell SDRs and have facilitated the circulation of SDRs in the system.

Box 17
IMF Resident Representatives

At the end of 1997/98, the IMF had 70 resident representatives in 64 countries. These posts—typically filled by a single staff member—are intended to enhance the provision of IMF policy advice and are often set up in conjunction with an IMF-supported adjustment program.

To evaluate their effectiveness, the IMF's Office of Internal Audit and Inspection reviewed the program in 1997. The review concluded that resident representative positions have a major impact on the quality of the IMF's country work; in particular, resident representatives alert the IMF and the host country to potential policy slippages and facilitate program implementation. The review highlighted the importance of placing broadly equal emphasis on policy and program support and activities to strengthen underlying macroeconomic capacities and institutions and enhance transparency. It also underscored the need to view these posts as transitional.

At their discussion, many Directors cited the exceptional access that resident representatives had to key national policymakers, which was an important asset for the IMF. Directors were generally highly satisfied with resident representatives, but there were problems in about one-third of the posts, which undermined their effectiveness. Directors urged the IMF staff to implement recommendations to improve this record. Most Directors agreed there should be no single model for the situations in which a resident representative could be used, but they supported a greater focus on the resident representatives' comparative advantage—that is, in providing on-site macroeconomic advice and program support. Directors stressed the need to ensure a consistently high quality of staff in these posts, with particular attention to strong economic policy and communication skills, self-confidence, and initiative. Given high start-up costs, Directors favored two- to three-year assignments. They also emphasized that member country receptiveness was vital to the success of a resident representative; the IMF staff needed to work closely with the national authorities to define objectives for the post and prioritize joint work.