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Broad-based participation

Uganda is first country to receive assistance under Poverty Reduction and Growth Facility

On November 22, 1999, the IMF transformed its Enhanced Structural Adjustment Facility (ESAF) into the Poverty Reduction and Growth Facility (PRGF) and expanded the facility's objectives to support programs that substantially strengthen balance of payments positions and make them sustainable, while fostering durable growth. Uganda became the first recipient of assistance under the new facility on December 10, 1999, when the IMF approved the country's third-year program to support the government's economic program. Uganda's three-year arrangement was approved under the ESAF in an original amount of SDR 100.4 million (about $138 million), of which SDR 73.6 million (about $100.8 million) has been disbursed (see Press Release No. 97/52, *IMF Survey*, November 17, 1997, page 365). The latest decision provides Uganda with another SDR 26.8 million (about $36.7 million) to be disbursed during the third year, with SDR 8.9 million (about $12.2 million) available immediately. Following are excerpts from IMF Deputy Managing Director Shigemitsu Sugisaki's statement after the IMF Executive Board's discussion.

PHOTO NOT AVAILABLE

Primary school children in Kisowera, a village outside of Kampala. Uganda's poverty-reduction strategy includes goals for achieving universal access to primary education and health care.

(Please turn to the following page)

Interview with IMF Survey

Camdessus reviews main priorities for future of international monetary, financial system

Following is the second part of an interview with IMF Managing Director Michel Camdessus conducted by the editors of the IMF Survey, *in which Camdessus considers the future evolution of the IMF and the international monetary and financial system. The first part of the interview was published in the* IMF Survey, *December 13, 1999.*

What will be the main priorities in the coming phase of reforming the international monetary and financial system?

CAMDESSUS: The financial foundations of the new architecture must be based on five basic principles: transparency, sound financial systems, private sector participation, the orderly liberalization of capital flows, and the modernization of the international markets on the basis of universally accepted standards.

Much has already been achieved. There is a consensus in a number of areas, particularly on transparency in policymaking and corporate affairs, on financial sector stability, and on working through standards and codes of practice toward stable, efficient, and transparent markets. While this work may not be complete, there is broad agreement on objectives.

A number of issues remain on the agenda:

First, there is the area of surveillance. Surveillance plays a central role in the work of the IMF. It is given priority when we allocate our human and budgetary resources, since the IMF alone has this mandate; it is growing in importance, and its primary focus is on matters that are the traditional responsibility of the IMF—issues of monetary stability, balance of payments sustainability, and growth-oriented economic policies.

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(Continued from front page) "Directors welcomed the significant progress made in the recent past in strengthening the poverty-reduction focus of Uganda's economic policies and the steps already taken to produce a poverty-reduction strategy paper [see page 3] next year. These steps include a comprehensive review of Uganda's poverty characteristics; the institution of a broad-based participatory process for the development, implementation, and monitoring of poverty eradication programs—involving civil society, local governments, and the donor community; a marked increase in outlays on key social areas; and the establishment of a decentralized machinery for the delivery of essential services. These actions have been underpinned by prudent macroeconomic policies and a wide range of structural reforms that have helped to achieve broad-based economic growth. Directors stressed the importance of continued implementation of sound policies and maintenance of an open foreign exchange system to strengthen the environment for private investment and to help maintain high economic growth, which they considered vital for the achievement of the authorities' poverty-reduction objectives.

"Notwithstanding this impressive start, Directors expressed concern at Uganda's welfare indicators, which remain among the lowest in Africa, and at the severe regional disparities in the incidence of poverty. They therefore called for early concerted actions to build an effective public service delivery system at the district level.

"While noting the importance of increased external resources for the implementation of Uganda's poverty-reduction strategy, Directors welcomed the authorities' actions to improve domestic resource mobilization, which they considered to be crucial for the long-run viability of the strategy. Directors supported steps to strengthen revenue, including improved tax administration—especially in view of the recent shortfall—and steps to restructure expenditure. Directors expressed concern, however, about the delays in implementing the Commitment Control System and urged the authorities to press ahead with actions to improve the reporting, monitoring, and enforcement of expenditure commitments. They also underlined the importance of strict adherence to the budgetary limits for defense spending.

"Directors welcomed the authorities' commitment to promote transparency and good governance, which are crucial for improving the delivery of social services and for high economic growth."

Uganda: selected economic and financial indicators

	1997/98	1998/99 Program	1998/99 Prelim.	1999/2000	2000/01 Projections	2001/02
	(annual percent changes)					
GDP at constant prices	5.4	7.0	7.8	7.0	7.0	7.0
Consumer prices (end of period)	–1.4	5.0	5.3	5.0	5.0	5.0
	(percent of GDP at factor cost)					
Current account balance (excluding official grants)	–8.4	–9.2	–8.9	–9.5	–7.9	–7.0
External debt (including IMF)	63.0	65.6	69.1	61.7	57.5	53.7
	(months of imports of goods and nonfactor services)					
Gross foreign exchange reserves	4.8	5.0	4.8	5.0	5.0	5.0

Note: Fiscal year begins in July.

Data: Ugandan authorities and IMF staff estimates and projections

Program summary

The authorities' medium-term economic objectives aim at maintaining the progress that has been achieved thus far. Revenues are projected to increase to 12.5 percent of GDP in 1999/2000, reflecting the impact of the more depreciated exchange rate, despite lower-than-expected revenues in the first quarter. Total expenditures are programmed to rise by 2.0 percent of GDP to 20.6 percent, resulting from higher social and development spending and the cost of the referendum scheduled for June 2000. The authorities are committed to containing defense expenditures, but outlays for defense-related wages will be higher than earlier projected.

Poverty-reduction strategy

The government has taken the key steps required for the production of its poverty-reduction strategy paper (PRSP). The national policy framework for poverty eradication is set out in Uganda's Poverty Eradication Action Plan, which was announced in 1997. The plan's principal goal is to reduce the incidence of absolute poverty to 10 percent or less by 2017. In addition, the plan sets forth goals for achieving universal access to primary education, primary health care, and safe drinking water; guaranteeing political freedom and human rights; and establishing an effective disaster relief system targeted principally at the poor.

Government expenditures on social programs increased substantially in 1998/99. Expenditures in seven key budget areas covering the vast majority of social services increased to 6.1 percent of GDP from 5.1 percent in 1997/98.

Uganda joined the IMF on September 27, 1963. Its quota is SDR 180.5 million (about $247.1 million). Its outstanding use of IMF financing currently totals SDR 265.9 million (about $364 million).

The text of Press Release No. 99/59 is available on the IMF's website (www.imf.org). ■

Public comment invited

IMF, World Bank endorse country-owned poverty-reduction strategies

On December 22, the IMF and the World Bank announced that their Executive Boards had endorsed the adoption of the Poverty-Reduction Strategy Paper (PRSP) as the central mechanism for developing and coordinating concessional lending to low-income member countries, including the commitment of resources under the enhanced Heavily Indebted Poor Countries (HIPC) Initiative. The text of Press Release No. 99/65, which follows, is also available on the IMF's website (www.imf.org).

The PRSP will be formulated by national authorities in broad consultation with stakeholders. It will describe and diagnose poverty conditions in a country and present a medium-term action plan to reduce poverty and generate more rapid economic growth. The PRSP, which will include performance indicators as a central element, is intended to provide a framework for assistance from bilateral donors and from multilateral financial institutions.

A joint IMF-World Bank paper entitled "Poverty-Reduction Strategy Papers: Operational Issues," has been posted on the IMF and the World Bank websites for public comment and to underline the importance of participation by civil society in the development of effective poverty-reduction programs. The joint paper can be accessed at: www.imf.org/external/np/pdr/prsp/poverty1.htm and www.worldbank.org/poverty/strategies/index.htm.

The Executive Boards of the IMF and the World Bank were mandated to implement a broad poverty-reduction effort by the governors of the IMF and the World Bank at their Annual Meetings in September 1999. This mandate included steps to underpin the enhanced HIPC Initiative and to strengthen the poverty-reduction focus of debt relief and various forms of concessional assistance.

IMF and World Bank Directors have reviewed the status of implementation under the enhanced HIPC framework and endorsed an updated schedule that would bring three countries—Bolivia, Mauritania, and Uganda—to their final decision points when full debt relief is committed in January 2000. Depending on policy implementation and resolution of outstanding issues, five to eight additional countries, including Mozambique, could reach their decision points by early spring. The total debt-relief packages under the initiative for these countries could reach from $7 billion to $10 billion in net present value terms (between $13 billion and $18 billion in nominal terms).

Financing for multilateral institutions is critical to assure rapid implementation of the enhanced HIPC framework. One important source of this financing is the HIPC Trust Fund, which is administered by the World Bank's International Development Association. By early September 1999, the HIPC Trust Fund had received approximately $330 million in contributions from bilateral donors. Subsequently, donors announced or reconfirmed pledges of nearly $1.8 billion to the HIPC Trust Fund. The recent $70 million contribution by the Netherlands is the first of these new pledges to be paid in.

Earlier in December, the IMF Executive Board took the decisions necessary to enable the IMF to begin to make its contribution to the enhanced HIPC Initiative, and the first off-market gold sales were completed on December 14 and December 17 (see below and Press Release No. 99/57, *IMF Survey*, December 13, 1999, page 393). ■

IMF completes first off-market gold sales

As part of the previously announced financing for debt relief and financial support for the world's poorest nations (see News Brief No. 99/62, September 27, 1999), the IMF completed two off-market gold sales on December 14 and 17, 1999.

Commenting on the first sale, IMF Treasurer Eduard Brau said "we sold slightly more than 7 million ounces of gold to Brazil and accepted it back immediately from Brazil for payment of an obligation due the same day." The IMF retained about SDR 250 million on its own account as required by the Articles of Agreement. The remainder of the proceeds—SDR 1.2 billion (about $1.6 billion)—was invested with the Bank for International Settlements to generate income for the Heavily Indebted Poor Countries Initiative.

The next sale, Brau noted, involved the sale of "slightly more than 655,000 ounces of gold to Mexico." The IMF accepted it back immediately from Mexico for payment of an obligation due the same day. He emphasized that, "as planned for this transaction and all gold transactions, the gold did not enter the market." The IMF retained about SDR 23 million from the second sale on its own account. The remainder—SDR 111 million (about $152 million)—was invested with the Bank for International Settlements.

"Our profits from the two gold sales so far have reached SDR 1.3 billion," Brau added. "Similar transactions are planned in the coming months with Mexico, until we reach the targeted amount of SDR 2.226 billion in profits."

The full text of News Briefs 99/84 and 99/86 are available on the IMF's website (www.imf.org).

Strong recovery

Netherlands used "textbook policies," broad public support to sustain growth, create jobs

The Netherlands' success in creating jobs and sustaining vibrant economic growth has attracted much attention. Its strong performance throughout the 1990s represents a sharp turnaround from the deep recession and high unemployment that marked the early 1980s. It also contrasts strikingly with the tepid growth and stubbornly high unemployment that have characterized much of continental Europe over the same period. What went right, and can this recipe for success be repeated elsewhere? IMF Occasional Paper No. 181, The Netherlands: Transforming a Market Economy, *and the IMF's most recent Article IV consultation with the country address these issues. C. Maxwell Watson—a Senior Advisor in the IMF's European I Department and coauthor of the Occasional Paper—and Robert Ford—the Division Chief responsible for the most recent IMF staff report on the Netherlands—discuss the "Dutch miracle" and what lies ahead for that country.*

What were the key elements in the transformation of the Dutch economy?

WATSON: For the most part, the Netherlands adopted textbook policies. Over the past fifteen or more years, the authorities reduced their fiscal deficit sharply; contained inflation through the use of a clear and transparent anchor for monetary policy—an exchange rate pegged to the deutsche mark; reduced the burden of taxes and social security contributions on labor; and lowered the real level of some social benefits, the minimum wage, and, especially, the youth minimum wage. The authorities had very clear-cut macroeconomic policies and pursued a number of key structural reforms. Also, they maintained a very effective dialogue with the social partners. Labor unions had already come to view high real wages as part of the problem of structural unemployment. The gains they saw from the government's broad strategy—namely, in employment and in lower taxes on their members—convinced them to buy into a policy of wage moderation. Taken together, all these elements created an environment in which businesses felt comfortable investing in the future.

Both the Occasional Paper and the recent IMF Executive Board discussion cite the Netherlands' success in creating a "virtuous circle." How did this come about?

WATSON: In general terms, synergy is created when strong macroeconomic policies are properly underpinned with good structural reforms and when broad public support enables these reforms to be sustained. This type of complementarity is at the forefront of our policy concerns at the IMF.

But the Netherlands achieved a virtuous circle in more specific ways also. Its reforms were carefully crafted and mutually reinforcing. Progress with social benefits reforms helped restrain public spending, and thus reduce the budget deficit, and also allowed some reduction in the tax burden. In addition, cutting taxes and reforming benefits served to foster and sustain a policy of wage moderation. And wage moderation and a real reduction in minimum wages, especially for youths, over time helped strengthen the demand for labor and bolster the exchange rate and the entire anti-inflation strategy. Finally, as employment started to grow, the tax base increased and tax rates could be lowered. Back in the early 1980s, the Dutch were already thinking in terms of policy complementarities, and their strategy worked well. That is the essence of how they got growth and job creation going.

In what ways did the Dutch experience differ from, say, that of the United States or the United Kingdom, which also recorded strong growth?

FORD: The United States did not experience a crisis of the magnitude of the Netherlands, nor did it have to embark on the type of labor market reforms that the Dutch did. But both countries were successful in creating jobs—something that I attribute primarily to their willingness to allow greater labor flexibility. The Netherlands permitted a large expansion in part-time employment, which is severely regulated in many continental European countries. These regulations are meant to preserve good jobs, but the effect has been to create no jobs at all.

WATSON: The difference between income levels is also much narrower in the Netherlands than it would be in the "Anglo-Saxon" model. It is often asked whether rapid employment growth can be achieved without wide wage dispersion. In practice, the Netherlands has been fortunate that the influx to its labor force has included a lot of skilled spouses who were employable at close to average wages. They also had an influx of trained young people. Modest wage differentiation did not pose an obstacle to bringing these people into the employment pool. A question still outstanding, however, is whether the labor costs of the low-skilled need to be reduced further to help redress the problem of hard-core unemployment.

FORD: The Dutch government recently introduced a U.S.-style earned income tax credit to provide more incentive for the long-term unemployed to return to the workforce. But other things will likely also be needed, including job training and a more proactive approach to administering benefits.

Is the impact of the Netherlands' job creation efforts diminished, as some critics would argue, because so many of these new jobs are part-time jobs?

FORD: Surveys suggest that many people prefer part-time jobs, and most part-time jobs are held by women who often do not want to work full time. In any case, it's not clear that full-time jobs are an option. The only option might be no jobs, and clearly part-time jobs are better than no jobs.

WATSON: If you measure the jobs per hour rather than per head, you still have a striking rise in employment. Even calculated on a full-time basis, the number of persons added to the job market is dramatic; the Dutch have clearly added to potential output through these part-time jobs.

What lessons does the Netherlands' successful defense of its exchange rate peg to the deutsche mark hold for other countries, particularly those seeking admission to the European Union?

WATSON: The Netherlands' extremely credible exchange rate peg allowed it to make a very smooth entry into the European Economic and Monetary Union (EMU). A key lesson is that the Netherlands, in adopting an exchange rate peg, supported that peg with essential fiscal and structural reforms. Had the Netherlands not brought its budget under control or failed to reduce its unemployment, the peg would not have been as credible. The Netherlands also subordinated monetary policy entirely to the needs of the peg. There was never any question that interest rates would be raised, if needed, to defend the peg. When there were stresses in the European exchange rate mechanism, the Netherlands was a beneficiary, not a target, of the volatility.

The difficult debate now is the extent to which exchange rate pegs can be used by emerging market countries. Conventional wisdom dictates very strong preconditions for an exchange rate peg. A country must already have in place good fiscal and structural policies and, particularly, a sound financial sector.

FORD: Belgium is another example of a country that had a successful peg to the deutsche mark. It has been highly integrated with the German and Dutch economies—a degree of integration that is not characteristic of all the transition economies. All three countries have roughly the same degree of industrialization and share very strong trade links, all of which help. As Max stressed, countries must do things to support a peg, and they must be seen to be doing these things. In neither the Netherlands nor Belgium in recent years was there ever any suggestion that monetary policy would be used for anything but holding the currency to the peg. That is important, because without political consensus in support of the peg, there will always be suspicion that a country might try to cheat a bit. That suspicion can undermine the credibility of the whole operation—sometimes fatally. Ultimately, running a successful peg is as much a political operation as an economic one.

Robert Ford (left) and C. Maxwell Watson.

Is the Netherlands well positioned to meet the challenges and take advantage of the opportunities afforded by the EMU?

FORD: A country like the Netherlands may face two potential challenges from participation in a single market, but it is well positioned to address both of them. One challenge derives from the relative strength of its economy, which is probably most evident in the real estate boom. The Netherlands could probably use a bit tighter monetary conditions than most of Europe. Portugal and Ireland also find themselves in this position. One possible answer is to use fiscal policy instead of monetary policy. If you have excess demand, you could use fiscal contraction to take it out. But in any case the Netherlands has a long, successful record in a de facto monetary union. We expect the Netherlands to continue to manage very well.

The other potential challenge arises from participation in a single financial market. Since there will no longer be any currency risk or exchange cost, a Dutch firm can now borrow as readily from a German bank as from a Dutch bank. But the Dutch financial system seems to be in good shape to cope with competition. It has already undergone the consolidations that are only just beginning in France and Germany. The Dutch and Belgians have also set up cross-border links and already have very large bank-insurance-securities groups. These financial sector restructurings across borders and across traditional areas of specialization do, of course, raise issues of regulatory supervision. The Dutch have created a Council of Financial Supervisors to make sure that nothing falls through the cracks. And there has also been talk of the European Central Bank taking on a supervisory role. Regulatory supervision in the aftermath of consolidation is something the authorities of the EU will have to keep an eye on.

What key reforms remain for the Netherlands?

Ford: Essentially more of the same, only deeper. The Dutch authorities have instituted an expenditure control system, with expenditure targets laid out four years in advance, and this should help contain expenditures and, therefore, taxes. But expenditure concerns will be compounded by the pension needs of an aging population. Within 15 years, there will be substantial pressure on expenditures from the government health care and pension systems—this despite the fact the Dutch are almost unique among continental Europeans in having a substantial private sector pension system.

More structural reforms will be needed. Workers aged 60 to 65 continue to be offered early retirement benefits, disability benefits, or indefinite unemployment benefits until they retire. Sooner or later, the current older nonworker problem will be transformed into a pension problem. But it is important to keep the next cohort of workers in the labor force. The Netherlands also has a very large disability program that it has not been able to reduce and that is, in fact, beginning to expand again. The country is experimenting with a unified system of delivering social security benefits. Disability and unemployment are now provided from the same office that offers training and job search services. The privatization of employment services is proving controversial, however.

Watson: A good many countries are experimenting right now with ways to train unemployed people and help them find jobs. Countries are curious to see what works, and they are learning from one another. This will be one of the intellectual growth industries of the next decade.

Ford: The Dutch are also experimenting with public sector jobs as a means of bringing the long-term unemployed back into the workforce. The effectiveness of these programs is being assessed right now. I suspect these programs will not be very successful in isolation. They may need to be integrated with job training and job placement services.

What lessons does the Netherlands' experience hold for other countries?

Watson: Three elements of the "Dutch miracle" hold great value as lessons for almost any economy. First, these were fundamentally orthodox reforms, and they worked. The Dutch did not reinvent the wheel. Second, their reforms were highly complementary, and they succeeded in creating a virtuous circle. Was it a miracle? We would argue it was chemistry, not alchemy. The reforms were very carefully designed, but there was little magic in them, except the magic of broad support. Third, by achieving this wide ownership, the Netherlands was able to sustain these reforms for more than a decade and a half.

But there were also three unusual starting conditions in the Netherlands' case. One was a deep crisis that helped trigger a consensus for reform and established a low bar against which to measure success. Unemployment had risen so high that the door was open for a major reversal. Another was that wages in an absolute sense were very high. Profits after interest and taxes were negligible. By reducing labor costs over time, you could stimulate the growth in employment. That's certainly not the case in all economies, but wage moderation could play a major role in this instance. And, finally, a young and growing population and an initially very low level of female participation provided a reservoir of skilled labor, including flexible part-time work, in a setting of not very dispersed wages.

We believe the crucial difference is on the labor market side. The wage moderation that characterized the Netherlands may not be needed where high unemployment is due wholly to structural factors, but you do need to stimulate the return of the labor force. Benefit and training reforms, and the high labor costs of the low skilled, take on even greater importance where there is no natural inflow to the labor market. These special factors in the Netherlands have largely run their course. Now the Netherlands has core issues that have much in common with countries elsewhere in Europe. But here, too, the country is trying imaginative solutions, and we look to them for lessons in the future also. ■

Copies of IMF Occasional Paper No. 181, *The Netherlands: Transforming a Market Economy*, by C. Maxwell Watson, Bas B.Bakker, Jan Kees Martijin, and Ioannis Halikias are available for $18.00 ($15.00 academic rate). Copies of IMF Staff Country Report No. 99/126, *Kingdom of the Netherlands: Staff Report for the 1999 Article IV Consultation,* are available for $15.00. Both publications can be ordered from IMF Publication Services. See page 11 for ordering details. The full text of the Netherlands and other staff country reports is also available on the IMF's website (www.imf.org).

Camdessus reviews future priorities

(Continued from front page) Since it is all too clear that major destabilizing factors can emerge anywhere and at any time, these traditional elements have now been supplemented by considerations involving the stability of banking and financial systems; governance; relations between governments, banks, and enterprises; and supportive social policies. There is also the question of how far the work of monitoring standards and codes of conduct should be integrated with IMF surveillance and enter into our day-to-day work. Some of the responsible agencies report that they do not have the capacity to monitor such implementation on their own. This raises the question of how far the IMF, with its limited resources, might use the surveillance process for such monitoring. The Executive Board is to discuss this issue in the next few months.

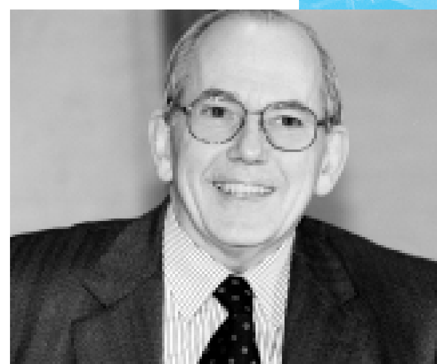
Second, exchange rate regimes and the conduct of economic policy have to be adapted to the new economic environment. It has frequently been noted that the countries affected by the recent crises had operated some form of pegged arrangement or tightly managed float, and this raises the question of whether such arrangements were defective either in principle or in the way they were managed. Are they suitable only for countries at certain stages of development and, hence, do they have only limited relevance? In the final analysis, if domestic policies are right, how much does it matter which exchange rate regime is adopted? The Board is taking account of recent experience as it reconsiders these questions.

Third, there is the question of involving the private sector more fully in crisis prevention and resolution. This issue is still under discussion. The basic point is that all our efforts should aim at preventing crises. When difficulties occur, voluntary market-based solutions should normally be found to keep the private sector engaged. Yet there may be extreme situations, in which some international intervention is needed to ensure that debtors have the time to reach orderly resolution with their creditors. One possibility might be to devise a mechanism through which the international community could sanction a temporary stay of litigation by creditors. I believe this would be useful, and Article VIII, 2*b*, provides a good vehicle for that. But the issue remains controversial, and more work is needed in this area.

A fourth objective is to foster sound, open, and integrated capital markets. The central question is how to achieve this goal and what role the IMF should play. The IMF will be considering proposals for a gradual, country-specific approach to the liberalization of capital movements that recognizes the great variety of country situations. The IMF will in any event play a key role in assisting countries to ensure that the right conditions—a sound macroeconomic framework and a strong financial system—are in place. This role could be strengthened by appropriate amendments to our Articles of Agreement. I do not, however, anticipate an early end to this task.

What progress would you hope to see in the area of trade liberalization?

CAMDESSUS: Trade liberalization will be of direct benefit for all countries, both developed and developing. It is already evident that many countries should take a look at the experiences of those countries in Asia and Latin America that have achieved accelerated growth through outwardly oriented economic policies, including progressive trade liberalization. The international community can make a major contribution in this area. The industrial countries should open their economies to the exports of all countries, starting right away with those of the poorest countries. It is essential not only to encourage primary commodity exports, but, more important for long-term growth, to create the potential for new, more diversified export production. Such a step would have a strong positive impact on the poorest countries and could be achieved with minimal cost to the more advanced economies. As I said in Seattle, debt relief—important as it now could be—will make little sense if industrial countries do not totally open their borders to the exports of the poorest countries.



Debt relief—important as it now could be—will make little sense if industrial countries do not totally open their borders to the exports of the poorest countries.

The former Interim Committee was recently renamed the International Monetary and Financial Committee. What is the significance of this change of name?

CAMDESSUS: As its name indicates, the mandate of the new committee has been extended to cover financial as well as purely monetary issues. There is also an explicit provision for preparatory meetings of deputies, which will facilitate the formal deliberations of the committee. We look forward to this strengthened committee playing a positive role in providing high-level advice on major policy issues.

I must confess that I regret that more consideration could not have been given to a contemplated reform that would have transformed the committee, as provided for by the Articles, from a purely advisory body into a decision-making committee for all the major strategic issues that we are confronted with at the IMF.

However, after 13 years in this job, I have learned to become patient, and we shouldn't rule out that, confronted with the tough demands of globalization, the new IMF committee might evolve in that direction.

Camdessus meets with Finnish President Martti Ahtisaari at the IMF.

What do you anticipate as likely to be the next great challenge to face the international economy and how should the world prepare for it?

CAMDESSUS: Without any doubt, the next great challenge is humanizing globalization, which calls immediately for an intensified fight against poverty. Although the IMF is not, strictly speaking, a development institution, it is nonetheless our task to seek continuously to help governments and to be responsive to the cries of the poor. These issues are not new to the IMF. For many years, IMF programs have explicitly incorporated social policies. We have been able to observe increases in spending on education and health care in countries with IMF-supported programs. There have also been improvements in important social indices. But much more needs to be done—both by ourselves and by the countries immediately concerned—if these countries are to be able to generate high-quality growth. An important step in this direction will occur on January 17–19, when the Summit meeting of African Heads of State on poverty reduction will be held in Libreville.

How has the public image of the IMF changed, and what more might be done in making more information available?

CAMDESSUS: I need only ask you to take a look at the IMF website [www.imf.org] to see what a great amount of material is now being released and made publicly available. This active program extends not only to the website, but to publications and staff participation in seminars and conferences. In addition, I and my senior colleagues, the deputy managing directors, as well as department directors and other senior staff, have been speaking out increasingly, both here in Washington and overseas, on important issues concerning the world economy and the IMF. Not only are we making more material available, but we are doing so in a more transparent and accessible form.

We have recently conducted a review of our external relations effort with the help of a respected consultant organization and are starting to put its recommendations into effect. We have also launched a new initiative to expand communications with the financial markets.

Certainly I am at times frustrated that I have not been fully able to counter the propensity of too many of our critics to blame the IMF for whatever catastrophe strikes the world. I am often concerned that, despite all our efforts, there is still widespread misunderstanding among the public and in the press of the purposes and operations of the IMF. Obviously, it will take time and a large effort to counter these misunderstandings. Possibly I should accept part of the blame for that, as I have always been reluctant to devote resources to image building. But I am heartened that I can already see signs that progressively the effectiveness of the IMF in dealing with the issues of the past two years is now better recognized.

You have often paid tribute to the qualities of the IMF staff. What has impressed you most as the distinct contribution of the staff?

CAMDESSUS: I am proud to say that the IMF staff is second to none in its dedication and the quality of its work. In recent years, this quality has been fully displayed, particularly in our work with the HIPC countries; in many crisis countries, not the least in Asia; and in the work of the staff in helping Russia and the other countries of Central and Eastern Europe make the difficult transition to a market economy.

Much of our work, however, is conducted in a quieter but no less important way. On a typical day, one is likely to find 30 to 40 IMF staff missions in action in our member countries. Some of these missions will be engaged in providing financial support to countries hit by balance of payments crises. In some countries, they will be providing technical assistance to govern-

Member's use of IMF credit
(million SDRs)

	During November 1999	January – November 1999	January – November 1998
General Resources Account	0.00	**8,906.47**	**15,229.67**
Stand-By Arrangements	0.00	6,429.07	7,580.49
SRF	0.00	3,636.09	5,125.00
EFF	0.00	1,797.00	5,492.63
SRF	0.00	0.00	675.02
CCFF	0.00	680.40	2,156.55
ESAF	**35.10**	**703.83**	**740.52**
Total	**35.10**	**9,610.30**	**15,970.19**

SRF = Supplemental Reserve Facility
EFF = Extended Fund Facility
CCFF = Compensatory and Contingency Financing Facility
ESAF = Enhanced Structural Adjustment Facility

Figures may not add to totals shown owing to rounding.

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ments and central banks, and in others they will be working with the authorities on statistical systems and data dissemination standards. The most widespread activity is what we call the Article IV mission, which lies at the core of surveillance and which more and more embraces the monitoring of newly established standards in the framework of the new architecture of the international financial system. We conduct this regular policy dialogue with every member—from Palau, our newest member, to the United States. I should also mention another important element in our surveillance activities and that is the biannual World Economic Outlook exercise, in which the staff provides policy analysis covering the main issues affecting the global economy as well as its projections for the coming period. All this work is time-consuming and difficult and would be impossible without the dedicated efforts of all staff members. I am certain that when the world better understands the need to prevent crises, the importance of this unique surveillance mission will appear to all to be even more essential.

What are your own plans now? Do you intend to write your memoirs?

CAMDESSUS: Really, I have had no time so far to make plans! After 13 years in the service of the IMF and its member countries and many equally intense years in the public service of my own country, I have simple ambitions: to live in my country at a slower pace than has been the case so far, with time for reading, thinking, and, perhaps, writing. Certainly, I hope to have more time for my family, for my friends around the world, and for worshipping my God. This is what I refer to when I speak half-jokingly about my constitutional rights to life, liberty, and the pursuit of happiness. ■

Without any doubt, the next great challenge is humanizing globalization, which calls immediately for an intensified fight against poverty.
—Camdessus

Available on the web (www.imf.org)

Press Releases

99/58: IMF Approves $45 Million Stand-By Credit for Latvia, December 10
99/59: IMF Approves Third Annual PRGF Loan for Uganda, December 10 [see page 1]
99/60: IMF Approves $453 Million EFF Credit for Kazakhstan, December 13
99/61: Mauritania Accepts Article VIII Obligations, December 15
99/62: IMF Approves $21 Million in Emergency Post-Conflict Assistance for Sierra Leone, December 17
99/63: IMF Approves Three-Year Extended Fund Facility for Colombia, December 20
99/64: IMF Approves Third Annual PRGF Arrangement for Guinea, December 21
99/65: World Bank and IMF Endorse Country-Owned Poverty-Reduction Strategies, December 22 [see page 3]
99/66: IMF Approves $4 Billion Stand-By Credit for Turkey [see page 14]

News Briefs

99/83: IMF Management Approves Letter of Intent for Turkey's Stand-By Arrangement, December 9
99/84: IMF Completes First Off-Market Gold Sale, December 17 [see page 3]
99/85: IMF Completes Korea Review, December 17
99/86: IMF Completes Second Off-Market Gold Sale, December 21 [see page 3]

Public Information Notices (PINs)

99/108: St. Vincent and the Grenadines, December 10
99/112: Barbados, December 10
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99/115: Korea: December 29
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Letters of Intent and Memorandums of Economic and Financial Policies

Latvia, November 10
Brazil, November 12
Uganda, November 19
Kazakhstan, November 22
Korea, November 24
Sierra Leone, November 25
Colombia, December 3
Guinea, December 8
Turkey, December 9

Policy Framework Papers

Uganda, November 19
Guinea, December 8

Concluding Remarks for Article IV Consultations

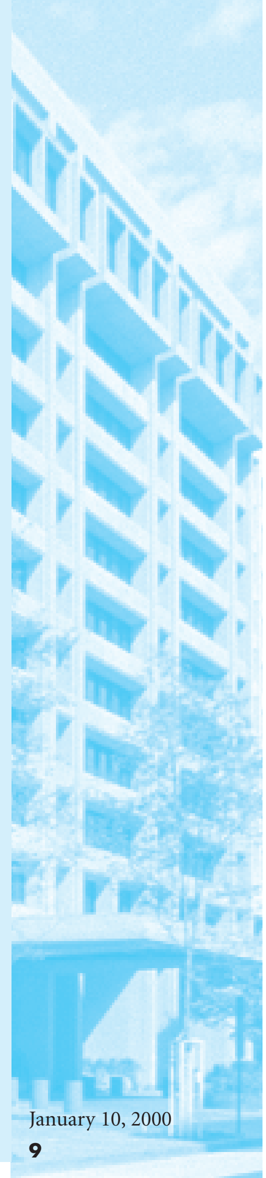
Israel, December 12

Notes: PINS are IMF Executive Board assessments of members' economic prospects and policies. They are issued following Article IV consultations—with the consent of the member—with background on the members' economies, and following policy discussions in the Executive Board at the decision of the Board.

Letters of Intent and Memorandums of Economic and Financial Policies are prepared by a member country and describe the policies that the country intends to implement in the context of its request for financial support from the IMF.

Policy Framework Papers are prepared by the member country in collaboration with the staffs of the IMF and the World Bank. These documents, which are updated annually, describe the authorities' economic objectives and macroeconomic and structural policies for three-year adjustment programs supported by Enhanced Structural Adjustment Facility resources.

Concluding Remarks for Article IV Consultations. At the conclusion of annual Article IV discussions with the authorities, and prior to the preparation of the staff's report to the Executive Board, the IMF mission often provides the authorities with a statement of its preliminary findings.



Group of 20

Officials agree sound policy is key to reducing international financial crises

Finance ministers and central bank governors of the Group of 20 held their inaugural meeting on December 15–16 in Berlin. The Group of 20 is chaired by Canadian Finance Minister Paul Martin, and consists of the Group of Seven and 11 major emerging economies (Argentina, Australia, Brazil, China, India, Korea, Mexico, Russia, Saudi Arabia, South Africa, and Turkey), plus 2 institutional representatives (European Union and IMF/World Bank). Following are excerpts from a statement issued following the meeting.

Ministers and governors welcomed the improvement in global economic conditions. They reaffirmed the importance of continued progress by the World Trade Organization toward multilateral liberalization of trade in goods and services that would bring broad-based benefits to the global economy.

Ministers and governors discussed the role and objectives of the Group of 20 and ways to address the main vulnerabilities currently facing their respective economies and the global financial system. They recognized that sound national economic and financial policies are central to building an international financial system that is less prone to crises. They noted the importance of strengthening national balance sheets to help cushion against unexpected shocks. They encouraged steps to strengthen sovereign debt management and greater attention to the impact of various government policies on the borrowing decisions of private firms.

They recognized that unsustainable exchange rate regimes are a critical source of vulnerability and that a consistent exchange rate and monetary policy are essential. They discussed a range of possible domestic policy responses to the challenges of globalization and exchanged views on the role of the international community in helping to reduce vulnerability to crises.

They welcomed the important work that has been done by the Bretton Woods institutions and other bodies toward the establishment of international codes and standards in key areas, including transparency, data dissemination, and financial sector policy. They agreed that the more widespread implementation of such codes and standards would contribute to more prosperous domestic economies and a more stable international financial system. To demonstrate leadership in this area, ministers and governors agreed to undertake the completion of reports on observance of standards and codes ("transparency reports") and financial sector assessments, within the context of continuing efforts by the IMF and the World Bank to improve these mechanisms. This commitment will help mobilize support for measures to strengthen domestic capacity, policies, and institutions.

Group of 20

The Group of 20 was established in September 1999, as a new mechanism for ongoing consultation on matters pertaining to the international financial system. Paul Martin, Minister of Finance of Canada, was appointed by the Group of Seven as Chairman for a two-year term. In his statement to the Interim Committee during the 1999 Annual Meetings, Martin described the proposed functions and objectives of the new group. Following is an edited extract. The full text of Martin's statement is available on the IMF's website (www.imf.org).

Earlier this year, the Group of Seven created the Financial Stability Forum, which has the critical role of identifying gaps in the regulation of financial systems and pointing to solutions to address these vulnerabilities. The forum has set up three working groups that are studying important issues in the international financial system.

These steps contribute important improvements to the international architecture. As we have seen over recent years, however, we still need a forum that can provide a broad overview and that can address issues that go beyond the responsibilities of any one organization or that involve more than financial regulation per se. The crises of the last two years have clearly demonstrated that there are close links between exchange rate regimes, financial systems, the real sectors of our economies, and society at large. The crises have also shown that what happens in emerging markets matters in a big way to everyone. There is therefore a need for an ongoing forum, such as the newly established Group of 20, that includes not only industrial economies but also key emerging and developing economies as well. The Group of 20 will not supplant existing forums and their decision-making roles, but rather will support their efforts. This new group will be an effective instrument for focusing on the larger issues and for promoting consistency and coherence to the various efforts and forums aiming at reforming and strengthening the international financial system.

In order to help achieve this, it is important that the group be as flexible as possible, both in the way it operates and in the questions it considers. The group will be a forum where ministers can talk candidly about important policy issues in a format that encourages spontaneity. The broadness of the group's mandate will afford it ample opportunity for flexibility in the questions it considers.

At the same time, the new group must take care not to duplicate work under way in other forums. Rather, the Group of 20 should *complement* and help *coordinate* these efforts.

Members of the Group of 20 asked their deputies to consider existing work in other forums (including the Financial Stability Forum) and to examine further ways to reduce vulnerabilities to crises. Deputies will report on their progress at the time of the next meeting of Group of 20 finance ministers and governors, to be held in Canada in autumn 2000. ■

Recent publications

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99/137: Djibouti: Statistical Annex

99/138: Greece: Selected Issues

99/139: France: Selected Issues

99/140: Turkmenistan: Recent Economic Developments

99/141: St. Vincent and the Grenadines: Staff Report for the 1999 Article IV Consultation

99/142: Barbados: Staff Report for the 1999 Article IV Consultation

99/143: Republic of Belarus: Recent Economic Developments

99/144: Barbados: Statistical Appendix

99/145: El Salvador: Statistical Annex

99/146: Antigua and Barbuda: Statistical Annex

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Financing retirement income

Move to defined-contribution pension system will change government's regulatory role

This article is based on "Regulation of Withdrawals in Individual Account Systems," a paper presented at the September 1999 World Bank conference, "New Ideas about Old Age Security." The study was subsequently also released as an IMF Working Paper.

Financing retirement income for the elderly imposes heavy fiscal burdens on many countries. For western industrial countries and a number of Asian countries, those burdens are expected to increase as their populations age. Others, notably transition countries, are already facing daunting financial problems in their social security systems. In both cases, policymakers face the same question: how to reform the public pension system so that its finances remain stable in the long run.

Defined benefits to defined contributions

In response to those pressing policy issues, the World Bank under the guidance of its then-chief economist, Lawrence Summers (now U.S. Treasury Secretary), developed a new pension policy framework for its member countries in the early 1990s (see also *Averting the Old Age Crisis*, Oxford University Press, 1994). Among the Bank's key recommendations is to replace public defined-benefit systems financed on a pay-as-you-go basis with a three-pillar system. In a pay-as-you-go defined-benefit system, contributions of current workers finance the benefits of current retirees, and benefits are set according to a formula that takes into account previous earnings, years of service, and age at retirement. In the suggested three-pillar system, only the first pillar, which provides a guaranteed minimum retirement income, would be financed on a pay-as-you-go-basis. The mandatory second pillar would be set up as a prefunded defined-contribution system. In a defined-contribution system, benefits are determined by the contributions a worker makes to his or her retirement account and the returns on those retirement savings. The third pillar would be voluntary and would finance supplementary retirement income.

An important and little-discussed question in moving to a defined-contribution public pension system is how to draw down retirement savings accumulated in individual accounts.

Retirement income

In a defined-contribution system, individuals enter retirement with a stock of assets. In a mandatory system, workers must transfer a certain proportion of their income to individual accounts. Within the limits set by government regulation, they can then decide how to invest their assets. When they retire, workers must finance their income needs with those savings. Traditional public pension systems provide a lifelong stream of income to the original beneficiary and usually also to survivors. Such an income stream, called a life annuity, protects against uncertainty about the length of life. Two important considerations for defined-contribution systems are whether pensions with the same lifelong income stream would be available to future retirees and which types of government intervention might be necessary. Without access to life annuities, retirees who live longer than expected would spend all their assets and then be without means, most likely drawing on government income support. Therefore, how accumulated retirement assets are withdrawn has a potentially large impact on government coffers if regulations and oversight are insufficient.

Retirees in a defined-contribution system could convert their retirement savings into a lifelong income stream by purchasing annuities in the private market. Private markets offer a variety of annuity contracts, the simplest one offering a lifetime income for a single person. Others provide an income stream for a spouse and other survivors at the same or a lower level. Some annuities—called refund annuities—pay a lump sum to survivors if the person receiving the annuity dies before a certain age. Annuity income can also be fixed or variable. Fixed annuities pay a fixed nominal amount each month; variable annuities are backed by a portfolio of risky assets, and the amount paid to beneficiaries of annuities depends on the return the portfolio earns.

Demand for annuities

Despite the large variety of available annuity products, annuity markets are very thin, even in countries with highly developed financial markets. That empirical observation is surprising from an economic perspective. The risk-sharing properties of annuities should make their return attractive to retirees; one would thus expect many retirees to supplement their other pension income by converting their private savings into annuities. The fact that only a small number of retirees currently value annuities enough to purchase them is important for two reasons. First, it could indicate some problem in the annuities market that requires government intervention. Second, to the extent that current annuity demand reveals preferences for consumption allocation in old age, policymakers in countries that introduce individual accounts should adapt their regulations.

One frequently mentioned concern is that private annuities markets suffer from adverse selection, which arises if the insurance company has less information about a potential customer's risk properties than the customer. As a result, insurance companies must raise their prices, because the unidentifiable "bad" risks—in the case of annuities, individuals with a longer-than-average lifespan—purchase more insurance than the "good" risks. The price increase could lead more good risks to drop out of the market, possibly until very few market participants remain. Indeed, there is empirical evidence that annuities markets in the United Kingdom and the United States are less favorably priced because people who purchase annuities live longer than average.

In addition to adverse selection, a variety of other factors affect the current demand for private annuities.

Stand-By, EFF, and ESAF arrangements as of November 30

Member	Date of arrangement	Expiration date	Amount approved	Undrawn balance
			(million SDRs)	
Stand-By			**39,577.64**	**13,427.54**
Bosnia and Herzegovina	May 29, 1998	April 28, 2000	77.51	24.24
Brazil[1]	December 2, 1998	December 1, 2001	13,024.80	5,969.70
Cape Verde	February 20, 1998	December 31, 1999	2.50	2.50
El Salvador	September 23, 1998	February 22, 2000	37.68	37.68
Korea[1]	December 4, 1997	December 3, 2000	15,500.00	1,087.50
Mexico	July 7, 1999	November 30, 2000	3,103.00	2,068.60
Philippines	April 1, 1998	March 31, 2000	1,020.79	475.13
Romania	August 5, 1999	March 31, 2000	400.00	347.00
Russia	July 28, 1999	December 27, 2000	3,300.00	2,828.57
Thailand	August 20, 1997	June 19, 2000	2,900.00	400.00
Uruguay	March 29, 1999	March 28, 2000	70.00	70.00
Zimbabwe	August 2, 1999	October 1, 2000	141.36	116.62
EFF			**11,749.03**	**6,593.10**
Argentina	February 4, 1998	February 3, 2001	2,080.00	2,080.00
Azerbaijan	December 20, 1996	December 19, 1999	58.50	5.26
Bulgaria	September 25, 1998	September 24, 2001	627.62	366.12
Croatia, Republic of	March 12, 1997	March 11, 2000	353.16	324.38
Indonesia	August 25, 1998	November 5, 2000	5,383.10	1,585.40
Jordan	April 15, 1999	April 14, 2002	127.88	106.56
Moldova	May 20, 1996	May 19, 2000	135.00	47.50
Pakistan	October 20, 1997	October 19, 2000	454.92	341.18
Panama	December 10, 1997	December 9, 2000	120.00	80.00
Peru	June 24, 1999	May 31, 2002	383.00	383.00
Ukraine	September 4, 1998	September 3, 2001	1,919.95	1,207.80
Yemen	October 29, 1997	March 1, 2001	105.90	65.90
ESAF			**3,800.01**	**1,990.22**
Albania	May 13, 1998	May 12, 2001	45.04	23.69
Armenia	February 14, 1996	December 20, 1999	109.35	20.93
Azerbaijan	December 20, 1996	January 24, 2000	93.60	11.70
Benin	August 28, 1996	January 7, 2000	27.18	10.87
Bolivia	September 18, 1998	September 17, 2001	100.96	67.31
Burkina Faso	September 10, 1999	September 9, 2002	39.12	33.53
Cambodia	October 22, 1999	October 21, 2002	58.50	50.14
Cameroon	August 20, 1997	August 19, 2000	162.12	36.03
Central African Republic	July 20, 1998	July 19, 2001	49.44	32.96
Côte d'Ivoire	March 17, 1998	March 16, 2001	285.84	161.98
Djibouti	October 18, 1999	October 17, 2002	19.08	16.36
The Gambia	June 29, 1998	June 28, 2001	20.61	13.74
Ghana	May 3, 1999	May 2, 2002	155.00	110.70
Guinea	January 13, 1997	January 12, 2000	70.80	23.60
Guyana	July 15, 1998	July 14, 2001	53.76	35.84
Honduras	March 26, 1999	March 25, 2002	156.75	96.90
Kyrgyz Republic	June 26, 1998	June 25, 2001	73.38	43.00
Macedonia, FYR	April 11, 1997	April 10, 2000	54.56	27.28
Madagascar	November 27, 1996	July 27, 2000	81.36	40.68
Mali	Aug 6, 1999	August 5, 2002	46.65	39.90
Mauritania	July 21, 1999	July 20, 2002	42.49	36.42
Mongolia	July 30, 1997	July 29, 2000	33.39	21.89
Mozambique	June 28, 1999	June 27, 2002	58.80	50.40
Nicaragua	March 18, 1998	March 17, 2001	148.96	53.82
Pakistan	October 20, 1997	October 19, 2000	682.38	417.01
Rwanda	June 24, 1998	June 23, 2001	71.40	38.08
Senegal	April 20, 1998	April 19, 2001	107.01	57.07
Tajikistan	June 24, 1998	June 23, 2001	100.30	53.34
Tanzania	November 8, 1996	February 7, 2000	181.59	0.00
Uganda	November 10, 1997	November 9, 2000	100.43	26.78
Yemen	October 29, 1997	October 28, 2000	264.75	114.75
Zambia	March 25, 1999	March 24, 2002	254.45	244.45
Total			**55,126.68**	**22,010.86**

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

Data: IMF Treasurer's Department

Extended Fund Facility Arrangements are designed to rectify balance of payments problems that stem from structural problems.

First, as a result of public and company pensions, many people already receive much of their retirement income in the form of annuities and might wish to use their remaining assets for purposes other than converting them into a stream of income. Second, families may decide jointly about consumption, taking into account that one or the other family member might die. Such a decision-making process would lead family members to leave bequests for each other and reduce the risk of outliving resources, thus diminishing the need to purchase annuities in the private market. Particularly in developing countries without extensive public support systems, families are known to provide implicit insurance. Third, retirees face the threat of large and lumpy health care expenditures. If annuity contracts were irreversible, retirees would choose to keep some cash on hand for health expenditures. Fourth, the portfolio of annuities often cannot be tailored to meet retirees' risk-return preferences, and annuities generally do not protect against inflation. Retirees may therefore prefer to invest in other assets.

Role of government

In considering the withdrawal of funds from individual pension accounts, governments that decide to reform their pension systems must consider simultaneously the cost to the government arising from benefit guarantees, the functioning of insurance markets, and retirees' consumption needs. Both protecting the government's finances and ensuring the functioning of insurance markets would favor mandatory annuitization of retirement savings. Retirees who are forced to purchase annuities are less likely to run out of resources later in life, which reduces the risk that the government will need to step in with income support. At the same time, because retirees would not be able to opt out of the annuities market, mandatory annuitization would eliminate adverse selection. However, a mandate restricts retirees' possibilities to allocate resources between different types of consumption—including health care—and bequests.

The following guiding principles can be established for regulating withdrawals. First, retirees should be required to purchase an inflation-protected annuity with survivor coverage that is higher than the government's minimum benefit guarantee or public support system. Under such a provision, people who live unexpectedly long will not qualify for government assistance if they run out of money or inflation erodes their income. The government should also limit the risks retirees can take with their annuitized savings by restricting the variability of annuity income. However, different types of annuities, such as refund annuities, should be permitted so that income streams can be adapted to personal preferences.

Second, the government must decide whether it wants to impose restrictions on the way annuities are priced. Without restrictions, insurance companies would price annuities differently on the basis of retirees' gender, health, and other individual characteristics, although this outcome may be considered politically or socially unacceptable. The government must also strike a balance between consumers' desire for privacy and annuity insurers' need for information. Finally, governments need to regulate the portfolio choices of annuity insurers. Implicit or explicit guarantees by the government to bail out those whose annuity company fails could otherwise lead insurers to make overly risky investment choices.

In summary, moving from traditional public defined-benefit systems to mandatory defined-contribution systems changes the government's role. The government would need to establish explicit regulations for the amounts to be annuitized, survivor coverage, the types of annuities that can be purchased, the variability of annuity income, and the price and investment policy of insurers. ■

Jan Walliser
IMF, Fiscal Affairs Department

Copies of IMF Working Paper 99/153, *Regulation of Withdrawals in Individual Account Systems*, by Jan Walliser, are available for $7.00 each from IMF Publication Services. See page 11 for ordering information.

Turkey to receive $4 billion Stand-By credit to support economic program

On December 22, the IMF approved a three-year Stand-By credit for about $4 billion (SDR 2.9 billion) for Turkey in support of the government's economic program for 2000–2002. The first installment of about $300 million (SDR 221.7 million) is to be made available immediately.

Describing the IMF Executive Board's discussion, IMF First Deputy Managing Director Stanley Fischer praised Turkey's program, calling it "strong and well balanced," designed to free the country from the high inflation that has plagued the economy for two decades, restore macroeconomic fundamentals, and address long-standing structural weaknesses.

The government's program rests on three pillars: up-front fiscal adjustment, structural reform, and a firm exchange rate commitment supported by consistent income policies. In 2000, real GNP growth is expected to be 5–5$^1/_2$ percent, while inflation is projected at 25 percent, compared with about 65 percent in 1999.

Turkey joined the IMF on March 11, 1947, and its quota is SDR 964.0 million (about $1.3 billion). Its outstanding use of IMF financing currently totals SDR 437 million (about $599 million).

Details of the program are included in the government's Letter of Intent, as well as in Press Release No. 99/66, both of which are available on the IMF's website (www.imf.org).

IMF-UNDP project

Pacific Island countries benefit from a "technical assistance experiment in action"

Six years ago, the IMF and the United Nations Development Program (UNDP) launched a unique experiment to provide technical assistance on a regional basis. In 1993, the Pacific Financial Technical Assistance Center (PFTAC) was established as a regional office, based in Suva, Fiji, to implement the UNDP-financed, IMF-executed Fiscal and Monetary Management Reform and Statistical Improvement Project. Approximately every two years, the project is reviewed and reappraised by representatives from the 15 Pacific Island countries, the donors (the Asian Development Bank, Australia, New Zealand, and the Pacific Forum), the UNDP, and the IMF. The 1999 review, held on November 18–19 in Suva, provided an opportunity for participants to reflect more broadly on the past six years with the PFTAC experiment, to draw conclusions about the continued effectiveness and relevance of its operations for the countries of the South Pacific, and to provide guidance for its future direction and priorities.

A seminar preceded the review. Five papers were presented—an overview by the project coordinator, Klaus-Walter Riechel, the IMF's Resident Representative in Fiji, and four papers by PFTAC technical advisors. The specific topics that the PFTAC technical advisors commented on were public financial management (Brian Thornton), tax administration and policy (Colin Walker), banking regulation and supervision (Alan E. Gee), and macroeconomic and financial statistics (Howard Murad). Each presentation, which included a panel discussion, was followed by open floor sessions. The seminar provided a forum to share views and led to the adoption of a clear set of recommendations for PFTAC's future direction.

Public financial management

Discussion of public financial management centered on the difficulty of engaging politicians in budget formulation. Effective budget management, it was pointed out, requires a cabinet system in which priorities and financial limits are agreed upon. All too often in the Pacific, participants suggested, budget formulation is undertaken by officials with no political involvement; consequently, ministers have no feeling of "ownership," leading to frequent recourse to supplementary budgets. Added to this, weak regulatory frameworks governing use of public funds and adherence to proper accounting standards by public corporations, together with the practice of undertaking development planning and aid programming in isolation from the budget process, result in a culture that is inimical to prudent financial management. Discussants agreed that PFTAC helps to instill principles of accountability, transparency, and good governance in finance ministers and their staff; however, some said that the center should extend its outreach to the government as a whole, since public finance management is not the exclusive preserve of finance ministries, but is a responsibility shared throughout all branches of government. Recognizing that weak public finance management is also partly due to a chronic shortage of accounting skills in the region, Jim McMaster, Director of the Pacific Institute for Management and Development, offered to provide training tailored to the needs of officials identified by PFTAC.

Tax administration and policy

All participants acknowledged PFTAC's key role in assisting with tax reform in the region. Cases of successfully implemented tax reform with PFTAC advice were contrasted with attempts that failed because PFTAC's advice had not been sought. PFTAC's role in promoting trade-friendly tax and customs regimes in a regional context was also discussed, with some participants advocating PFTAC involvement in establishing a regional tax body with functions similar to those of the Oceania Customs Organization. Others, however, expressed caution, arguing that such involvement would stretch PFTAC's resources too thin, limiting its ability to provide country-level, hands-on technical assistance and training. Several participants said that management training, in addition to technical training,

Selected IMF rates

Week beginning	SDR interest rate	Rate of remuneration	Rate of charge
December 13	3.78	3.78	4.30
December 20	3.88	3.88	4.41
December 27	3.90	3.90	4.43
January 3	3.81	3.81	4.31

The SDR interest rate and the rate of remuneration are equal to a weighted average of interest rates on specified short-term domestic obligations in the money markets of the five countries whose currencies constitute the SDR valuation basket (as of May 1, 1999, the U.S. dollar was weighted 41.3 percent; euro (Germany), 19 percent; euro (France), 10.3 percent; Japanese yen, 17 percent; and U.K. pound, 12.4 percent). The rate of remuneration is the rate of return on members' remunerated reserve tranche positions. The rate of charge, a proportion (currently 113.7 percent) of the SDR interest rate, is the cost of using the IMF's financial resources. All three rates are computed each Friday for the following week. The basic rates of remuneration and charge are further adjusted to reflect burden-sharing arrangements. For the latest rates, call (202) 623-7171 or check the IMF website (www.imf.org/external/np/tre/sdr/sdr.htm).

Data: IMF Treasurer's Department

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Participants in the seminar and review of the IMF-UNDP technical assistance project in Suva, Fiji.

was vital for the success of technical assistance on tax and customs matters and hoped PFTAC would give attention to this area.

Banking regulation and supervision

Discussants recognized that the environment has changed dramatically since PFTAC was first established, with the emergence of a large offshore banking sector and, most recently, concern over money laundering in the region. The Asian Development Bank, which is involved in policy-based lending conditional upon financial sector reforms, is particularly concerned with these developments. Eugene Zhukov, Financial Sector Specialist with the Asian Development Bank, expressed the hope that PFTAC would be able to address these problems, as well as expand into advising on the supervision of nonbank financial institutions. The Asian Development Bank, he said, supported the need for a regional supervisory authority, as proposed by PFTAC, and appreciated the center's efforts to harmonize the regulatory framework within the region.

Many participants noted that central banks were having to implement far-reaching reforms at the same time as they were building capacity, because staff with the requisite skills in prudential supervision did not exist. Some pointed to a recent decline in the provision of long-term capacity-building technical assistance by the IMF and other donors and expressed the hope that this falling off did not mean that PFTAC was expected to shoulder the entire burden.

Statistics

According to Howard Murad, his role as the statistics advisor has been greatly facilitated by his being part of a team with three other advisors who recognize the importance of good statistics for sound economic and financial management and are able to demonstrate their value to their counterparts. In general, however, statisticians are held in low esteem in the region, their work is underfunded, the demand for their output is low, and their clout is nonexistent, Murad said.

Statistical organizations are poorly managed and ill served by weak legislative authority to collect data and enforce standards. Nevertheless, as countries in the region develop their own reform programs and assume ownership in the implementation and monitoring of these programs, a demand for reliable and current statistics will emerge. PFTAC will build on these developments and perhaps also explore the feasibility of data collection—for example, census work and expenditure surveys—being undertaken by regional teams of specialists.

Conclusions

A consensus of the discussions was that the PFTAC is valued for its provision of high-quality and objective technical services and advice. The center's location in the region also makes it highly responsive and sensitive to the needs of its client countries and enables it to deliver sometimes unpalatable advice in a manner and form that make it more acceptable and more likely to be acted upon than advice coming from outside the region.

The meeting concluded with strong declarations of support and appreciation from both donors and recipients for the role PFTAC plays in the region. Participants unanimously agreed that it should continue in operation for the foreseeable future. Because the center performed such a valuable role in improving macroeconomic management and supporting economic and financial reforms, the donor representatives assured participants that there would be continued financing from their aid budgets in the years ahead. ■

Nigel Bradshaw
IMF Technical Assistance Secretariat