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IMF Survey

NOVEMBER 14, 2005 VOL. 34, NO. 21

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335

RESEARCH: Developing corporate bond markets

Over the past decade, national authorities—in emerging markets as well as mature economies—have given bond market development more prominence as their awareness of the importance of establishing deep and liquid corporate debt markets has increased. Despite these advances, however, corporate bond markets in many countries are still largely underdeveloped. A new IMF study examines the fundamental requirements for corporate bond market development, comparing experiences across both mature and emerging markets.

342

COUNTRY FOCUS: Japan is on the go again

The final stage of Japan's fight against deflation is at hand. But there will be no time to rest on laurels. With an aging population and a shrinking labor force, the country will need to turn its attention to reducing public debt, spurring productivity growth, ensuring more flexible labor markets, and improving domestic competition—all with an eye to securing durable growth, says the IMF's Daniel Citrin, Deputy Director of the Asia and Pacific Department.

344

FORUM: Legislators debate debt, trade initiatives

What can legislators do to help high-profile initiatives to cancel debt, boost aid, and facilitate trade openness reach fruition? The sixth annual Parliamentary Network on the World Bank, meeting in Helsinki, provided a forum for legislators, civil society organizations, and others to debate the pros and cons of these initiatives and allowed them to explore the resources and the training members of parliament need to better exercise their responsibilities as public watchdogs over executive actions.

348

IN THIS ISSUE

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Michael Spilotro/IMF

335

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342

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Yoshikazu Tsuno/AFP/Getty Images

344

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Vesa Lindquisp/Parliament of Finland

348

IN THIS ISSUE

What's on

November

16–18 World Summit on the Information Society, Tunis, Tunisia

18 European Banking Congress, Frankfurt, Germany

18 APEC Joint Ministerial Meeting, Busan, Korea

18 World Bank's *Global Economic Prospects* presentation, Berlin, Germany

21–22 IMF seminar on regional integration, Algiers, Algeria

23–24 Central European Initiative, 8th Summit Economic Forum, Bratislava, Slovakia

24 IMF forum on regional economic developments for academics, nongovernmental organizations, and media, San José, Costa Rica

27–29 World Economic Forum, India Economic Summit, New Delhi, India

28–30 IMF seminar for parliamentarians from Algeria, Libya, Morocco, and Tunisia; Rabat, Morocco

28–December 9 United Nations Climate Change Conference, Montreal, Canada

December

4–9 International Conference on HIV/AIDS and Sexually Transmitted Infections in Africa, Abuja, Nigeria

8 Japan External Trade Organization, Asahi Shimbun, and the World Bank, "International Symposium on Economic Integration in Asia and India: What Is the Best Way of Regional Cooperation?" Tokyo, Japan

10 Meeting of Group of Seven Finance Ministers and Central Bank Governors, London, United Kingdom

12–14 UNCTAD, Expert Meeting on Capacity Building in the Area of FDI Data Compilation and Policy Formulation in Developing Countries, Geneva, Switzerland

13–18 The 6th World Trade Organization Ministerial Conference, Hong Kong SAR

January

6–8 American Economic Association Annual Meeting, Boston, United States

25–29 World Economic Forum Annual Meeting, "Mastering Our Future," Davos, Switzerland

IMF Executive Board

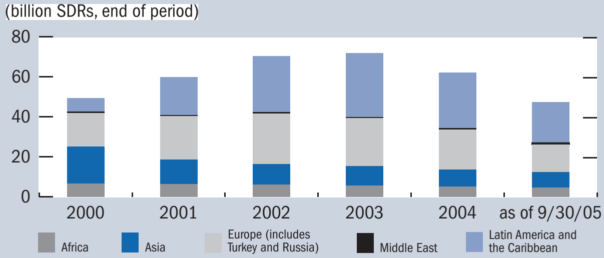
For an up-to-date listing of IMF Executive Board meetings, see *www.imf.org.external/np/sec/bc/eng/index.asp*.

At a glance

IMF financial data

Total IMF credit and loans outstanding, by region

(billion SDRs, end of period)



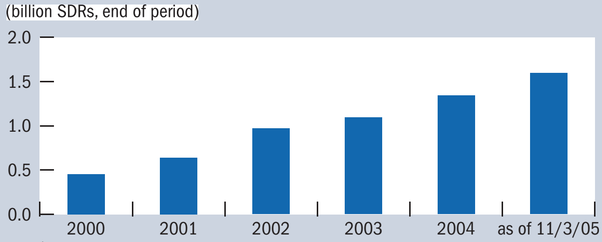
Largest outstanding loans

(billion SDRs, as of 9/30/05)

Nonconcessional		Concessional	
Brazil	10.79	Pakistan	1.01
Turkey	10.65	Congo, Dem. Rep. of	.55
Argentina	7.16	Zambia	.49
Indonesia	5.63	Ghana	.30
Uruguay	1.61	Tanzania	.25

HIPC debt relief[1]

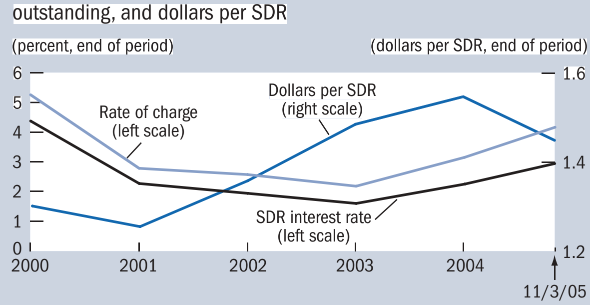
(billion SDRs, end of period)



[1]Cumulative disbursements under the Heavily Indebted Poor Countries Initiative.

Related rates

SDR interest rate, rate of charge on IMF nonconcessional loans outstanding, and dollars per SDR



Note on IMF Special Drawing Rights

Special Drawing Rights (SDRs) are an international reserve asset, created by the IMF in 1969 to supplement the existing official reserves of member countries. SDRs are allocated to member countries in proportion to their IMF quotas. The SDR also serves as the unit of account of the IMF and some other international organizations. Its value is based on a basket of key international currencies.

Interview with Stefan Ingves

IMF needs to give financial sector work a higher priority

When Stefan Ingves takes up the reins as Governor of the Riksbank, Sweden's central bank—the oldest in the world—in January 2006, he will take with him a wealth of experience, especially on the financial crisis front. He joined the IMF in 1999, in the wake of the East Asian financial crisis, to head up the IMF's Monetary and Financial Systems Department (MFD). Previously, he had served for 10 years in the Swedish government, including as First Deputy Director of the Bank of Sweden and Undersecretary in the Swedish Ministry of Finance. Under his direction, the IMF's Financial Sector Assessment Program (FSAP) has taken off, a key tool now for the international community to use to pinpoint vulnerabilities in financial systems. He spoke with Laura Wallace of the IMF Survey *shortly after he relinquished his IMF post in mid-October.*


Michael Spilotro/IMF

Ingves: "The IMF is kind of a financial sector Red Cross. We build financial systems, and we put them back together when they're falling apart."

IMF Survey: You've had a lot of experience as a financial crisis "insider"—first as a Swedish government official during the Nordic banking crisis in the early 1990s, then at the IMF as part of the international fight against banking crises. Where does the IMF stand now on the learning curve in terms of resolving financial crises?

Ingves: The IMF's capacity to deal with financial crises is a lot better today than when I first joined. With a full division of experts who know how to deal with crises, we're truly in a position to produce a public good—which is international knowledge and experience, something that's often lacking in countries. The IMF is kind of a financial sector Red Cross. We build financial systems, and we put them back together when they're falling apart. We also have a much more refined knowledge of the types of financial crises that can occur. For example, there can be major differences between a financial crisis in a dollarized economy and one in an economy where people basically use only their own currency. And there can be major differences between a crisis where the government has gone bust and one where banks' loan portfolios are the problem.

IMF Survey: How about the IMF's ability to avert crises?

Ingves: There's a greater focus now on vulnerabilities—including financial sector ones—and we know a lot more about which numbers to watch. But that doesn't mean that it's easy to predict when a financial crisis will strike. I continue to be surprised by the fact that in some cases, a country's numbers can look bad, and we expect a serious problem, and yet the country holds together for years and years. In another country, where the numbers look reasonably good, a crisis can rapidly unfold. So the best approach for the IMF is to track those cases where the numbers don't look good, and mentally prepare for what will be needed if things start to fall apart. Of course, it helps if countries are more willing to act when it's still possible to correct problems and avoid huge ones down the road. But maybe it's the nature of the business that it's difficult to act until things go terribly wrong.

IMF Survey: Are we living in a riskier world given massive capital flows, instantaneous information flows, and sophisticated hedging instruments?

Ingves: The truth is that financial crises come and go, and it's been like that for a long time. Is the world riskier now? I would say that it's not necessarily riskier but that the types of risks have changed—and will continue to change, particularly given that derivatives and new financial instruments alter the distribution of risk in the system. But if we understand how these instruments work, we can also better pinpoint the risks, because the instruments themselves don't create the risks.

IMF Survey: Since mid-1999, the IMF and World Bank have put increased effort into surveillance over financial sectors through the FSAP. At this point, about two-thirds of our members have completed or requested these assessments.

How has the FSAP changed over time? Do you consider the program a success?

Ingves: When we began the pilot project, we started out with a blank piece of paper, just wanting to prove that it was doable—and we have to thank the Canadians for being willing to be our guinea pig. Over the years, this project has gone way beyond what I ever imagined, and I take great pride in the fact that we're now talking about 120 country assessments. The current FSAP assessments are much more streamlined, as we've gotten better at tailoring the contents to each country's needs and stage of development. As for issues, in the early days, there was quite a debate over stress tests on financial systems. Today, it's a generally accepted tool. Similarly, we're no longer debating whether to make FSAP results public; it's generally accepted that this should be done, and there's a fairly good record of countries doing so.

IMF Survey: What are the most important lessons that the IMF and participating countries have reaped from the FSAP?

Ingves: One lesson is that it's hard for a country to conduct its own FSAP assessment. It's not because countries don't have the capacity—many countries do—but because they don't have a mechanism to coordinate the work. If the ministries of finance and justice and the central bank are all roughly on the same level, who pulls the information together and makes sense of it? That is a service the IMF can provide. Another lesson is that things can always be improved, even in countries that are doing well and are well organized. I think in every FSAP assessment we have uncovered something new, often even surprising the country officials.

IMF Survey: Going forward, how often should countries undertake FSAP assessments?

Ingves: Given that we've already done so many countries, and in many cases are just trying to do updates, the process needs to change. Fortunately, doing updates will be much simpler than starting from scratch; this particularly holds when it comes to doing the standards assessments. The MFD will also be participating in the regular IMF Article IV country assessments—possibly 40 or so in the current financial year. This is a welcome development, since the IMF's overall financial sector work needs to be both deepened and spread more widely. We started with a blank sheet of paper in 1999, but now it's time to truly integrate the FSAP with the work of other departments, making it a standard tool that the IMF uses to carry out surveillance.

It's taken the IMF a long time to develop the capacity to do financial sector surveillance. In my view, it's truly a late starter. Going forward, the IMF needs to find a proper balance between macroeconomic and more technical work.

—Stefan Ingves

IMF Survey: Are you satisfied with how financial sector surveillance is handled as part of the IMF's country and global surveillance?

Ingves: It's taken the IMF a long time to develop the capacity to do financial sector surveillance. In my view, it's truly a late starter. Going forward, the IMF needs to find a proper balance between macroeconomic and more technical work. It also needs to spend more time figuring out how best to carry out the financial sector work. There's no fixed template. The IMF will have to create one and let it evolve over time.

IMF Survey: How about the United States? It's a big FSAP supporter, yet it's the only Group of Seven [G7] country that hasn't had one. Is it just too costly for the IMF, as the United States has argued? What might you tell U.S. officials they would learn from it?

Ingves: We're ready to do the work, and I expect the United States to participate at some point. We've done all the other G7 countries, and we've had quite a lot of experience in making the process work in fairly large and complex countries. What might the U.S. learn? An FSAP would provide U.S. officials with a second opinion from a group of external, independent experts on its financial sector. Those views could then be fed into the domestic debate—both at the technical level, sometimes with new rules and regulations, and at the political level, which would deal more with the overall performance of the financial sector, especially against the backdrop of globalization.

IMF Survey: Any examples of this happening in some of the major industrial countries?

Ingves: In the case of Japan, we argued strongly that it had to do something about the Japan Post, which turned into a major election issue—and the privatization of this huge postal savings system is now moving forward. In the case of Germany, there is a lively domestic debate about our views on the structure of the whole German financial sector, not the least the savings banks. In the case of the United Kingdom, we argued that a few things could be improved in the insurance sector.

IMF Survey: Turning to the conduct of monetary policy, an increasing number of countries have adopted inflation targeting. Is this just a passing fad, or is it an appropriate and attainable monetary policy regime that more countries ought to consider seriously?

Ingves: Countries vary in economic size, degree of economic integration with their neighbors and the world, and exchange rate regime. Each has to choose the monetary policy framework that is best for it—there is no textbook where you can look at page 375 and get the answer. That said, in a world with increasing capital flows between countries, it has probably become harder for countries to defend a fixed exchange rate. That means that for some, inflation targeting is a serious candidate. It certainly has been the case in Sweden.

IMF Survey: What should the IMF be advising on central bank independence?

Ingves: Independence is a good thing. But it goes hand-in-hand with transparency. If you have the right to decide independently, then you have to explain to others what you do and why you do it. In addition, a central bank is part of a society, and that means that it needs to understand how that society works and what its role should be in that society. In that sense, independence is never absolute. Independence is given to you provided that you supply what is expected of you—which is monetary stability.


Michael Spilotro/IMF

Ingves: "In a world with increasing capital flows between countries, it has probably become harder for countries to defend a fixed exchange rate. That means that for some, inflation targeting is a serious candidate."

IMF Survey: You've long talked about the importance of greater transparency in the financial community, including on the part of central banks. Is this still a topic of debate, and has the move toward greater transparency shielded central bankers from political influence?

Ingves: When I first joined the Fund, MFD was in the middle of trying to finalize and negotiate what came to be known as the central bank code on transparency. That was quite a contentious process, and it wasn't a given in those days that transparency was a good thing. Today, the IMF has done a large number of country and central bank assessments using this code, and my impression is that the need for transparency is rarely contentious. Transparency also makes political interference harder. In a quiet way, this work has changed the thinking of many.

IMF Survey: Many industrial countries are weighing how best to adopt the complex new capital adequacy framework, known as Basel II. Should emerging markets also adopt Basel II? What should the IMF's role be? Who will assess whether countries are doing a good job of implementing these standards?

Ingves: There are many versions of Basel II, including a simplified approach. The key is to choose the right version so that Basel II is tailored to the needs and the capacity of the country. For some emerging market countries, that will mean opting for the simplified approach, until their markets and data are more sophisticated. On the issue of assessment, it wouldn't surprise me if the IMF ends up doing it. But I also think it would be important for other parties to be involved as assessors as well. One model might be shared assessments along the lines of our cooperation with the Financial Action Task Force when we do the anti-money laundering assessments.

IMF Survey: Do you have any thoughts on where the IMF is headed in terms of its financial sector involvement?

Ingves: There has always been an internal debate on how much financial sector work the IMF should be doing. In the end, we always do more, and that's because there's a natural demand for this type of work in countries, and it's likely to continue. The reality is that it takes a solid understanding of the financial sector machinery to properly execute various types of macroeconomic policies—especially monetary policy and crisis management.

IMF Survey: Any thoughts on what you would like to accomplish as Sweden's central bank governor?

Ingves: First, Sweden is a country with an inflation target, so it's important to meet the target. It's also important to communicate in such a way that there is sound support for the target and that it's commonly accepted and understood. Second, there's a need to continue to develop the financial stability work and stay on top of financial innovation. Third, it's vital to maintain expertise in the central bank so that it remains respected, both nationally and internationally. Finally, it's important to ensure that the Riksbank stays small and efficient.

IMF Survey: I understand that you've always wanted to be a long-distance runner. Where are you now on the course?

Ingves: After seven years, I know all the trails around McLean, Virginia, by heart. I did four seven-minute miles this morning in the gym, and I probably could do five in a row. That's good enough for now. ■

Syrian economy needs faster, deeper reforms to offset oil depletion

Syria's economy experienced a mild recovery in 2004 following a slowdown in 2003 that had been caused by a decline in oil production and the impact of the Iraq conflict on exports and investment, the IMF said in its latest annual economic review. The recovery, which has continued in 2005, has been aided by a strong rebound in exports and a surge in private investment, reflecting ongoing reforms.

Inflation remains subdued for the time being, despite expansionary fiscal policies and an easing of credit conditions. Fiscal policies promise to be somewhat tighter in 2005, as a result of the introduction of a consumption tax, some adjustment in petroleum prices, and a planned curb on inefficient public investment. This, together with moderate credit expansion, will help keep inflation in check.

Encouraged by Syria's strong non-oil growth and the stable macroeconomic environment, the IMF Executive Board commended the authorities for pushing forward the structural reform agenda, including further liberalizing the trade and foreign exchange rate regimes, simplifying the tax system and broadening the tax base, and strengthening budgetary procedures to improve public spending efficiency.

However, given that its oil is likely to be exhausted in the late 2020s, Syria's medium-term prospects are worrisome. The Board expressed concern that the pace and scope of reforms may be falling short of the daunting challenges posed by the prospective depletion of oil reserves and the high demographic pressures on the labor market. Syria is at risk of getting locked in a cycle of financial volatility, fiscal deterioration, slow growth, and rising unemployment. To avoid such a cycle, the Board urged the authorities to accelerate structural reforms and draw up a strong and credible fiscal consolidation strategy within a transparent medium-term fiscal framework. ■

Syria	2001	2002	Prel. 2003	Prel. 2004	Proj. 2005
			(percent change)		
Real GDP	3.6	4.1	1.3	3.1	3.8
CPI annual average	5.6	–2.3	5.9	4.6	10.0
			(percent of GDP)		
Overall balance	2.4	–1.6	–2.7	–5.3	–4.8
Nonoil budget balance	–16.1	–15.4	–17.9	–18.0	–16.9

Data: Syrian authorities and IMF staff estimates and projections.

Bold policy change needed to brighten Zimbabwe's economic prospects

After some improvement in 2004, Zimbabwe's economic and social conditions deteriorated further in 2005, the IMF said in its annual economic review. Continued sharp declines in agricultural output, as well as accelerating inflation—projected to increase beyond 400 percent annually by year's end—and shortages of foreign exchange are expected to cause real GDP to contract by more than 7 percent this year. An overvalued official exchange rate and import restrictions have produced pervasive shortages of basic goods in the economy.

The IMF Executive Board expressed deep concern over Zimbabwe's continued sharp economic and social decline, prospects for continuing triple-digit inflation, and further increases in poverty. It urged the authorities to implement a comprehensive package of macroeconomic policies and structural reforms without delay. Decisive fiscal adjustment, particularly through cuts in the public sector wage bill, is essential in the near term, the Board said, although adequate food security and social safety nets would need to be provided to vulnerable groups, especially those affected by HIV/AIDS and "Operation Restore Order" (the government's recent effort to remove unauthorized dwellings). The Board stressed the need to fully liberalize the exchange rate regime for current account transactions and leave the determination of the exchange rate to the market while establishing a strong, credible monetary anchor. Although it welcomed the recent monetary tightening, the Board noted that further sustained tightening would still be needed. The Board commended the Reserve Bank of Zimbabwe's efforts to strengthen banking supervision, while underscoring the need to ensure that supervisors remain independent.

Zimbabwe	2002	2003	Prel. 2004	Proj. 2005
		(percent change)		
Real GDP	–4.4	–10.7	–4.2	–7.2
CPI (12-month change to year-end)	198.9	598.7	132.7	404.6
Export volume	–17.6	–19.3	–9.0	–7.3
Import volume	–0.5	–19.9	–5.8	–11.9
		(percent of GDP)		
Overall fiscal balance[1]	–2.8	–0.4	–7.1	–14.2

[1]Excluding grants, including interest arrears.
Data: Zimbabwean authorities and IMF staff estimates and projections.

The Board stressed that fundamental structural reforms will be essential for sustaining macroeconomic stability and achieving durable growth. It called on the authorities to act decisively in a number of areas, including: deregulation; public enterprise reform, fiscal reform, and particularly civil service reform; land and agricultural reform; and improvements in governance to increase investor confidence.

The Board welcomed Zimbabwe's recent payment to the Fund, which has substantially reduced arrears, but sought clarification regarding the source of funds for this payment. It agreed to review Zimbabwe's overdue financial obligations again in six months, providing the authorities with more time to strengthen cooperation with the Fund in terms of policies and payments. ■

To sustain growth, Mongolia needs to improve environment for private sector

Mongolia achieved stronger-than-expected and broad-based economic growth in 2004 and early 2005, benefiting from good weather and high world mineral prices, the IMF said in its annual economic review. Strongly performing agriculture (specifically, livestock) and copper and gold mining sectors contributed to robust growth. Increases in tourism and private transfers also helped offset the negative impact of more costly oil imports.

Inflationary pressures increased sharply over the year through mid-2005, however, particularly because of rising fuel and meat prices. Consumer prices rose 10.6 percent in 2004—more than double the increase in 2003. While commending the national authorities for the recent robust growth performance and maintenance of broad economic stability, the IMF Executive Board urged further tightening of the monetary stance to counter the threat posed by higher inflation to hard-won gains in macroeconomic stabilization in recent years.

Mongolia	2002	2003	Prel. 2004	Proj. 2005
		(percent change)		
Real GDP	4.0	5.6	10.6	5.0
CPI (12-month change to year-end)	1.7	4.7	10.6	10.0
		(percent of GDP)		
Overall fiscal balance	–5.9	–4.2	–2.2	–1.8
		(millions of dollars)		
Exports	524	627	872	914
Gold and copper	258	319	524	580

Data: Mongolian authorities and IMF staff estimates and projections.

Fiscal performance was good in 2004 and prospects for 2005 are excellent, the IMF review noted. The Board welcomed the national authorities' aim to keep the overall budget deficit in 2005 well below the original target, taking into account inflationary pressures and a projected weaker current account.

Medium-term economic prospects are considered broadly favorable, provided the authorities manage to bring annual inflation back down to single digits and sustain supportive fiscal policies. Although the potential for large increases in mineral extraction strengthens the medium-term outlook, the Board warned that Mongolia remains vulnerable to pronounced declines in copper prices and to adverse weather conditions that would affect the productivity of the agriculture sector. It also encouraged the national authorities to implement structural reforms, giving particular priority to improving the environment for private sector activity, while maintaining efforts to reduce poverty and continuing to make progress on debt reduction. ■

Russia's robust growth presents opportunity to propel reforms

Russia is in its seventh year of robust economic growth with higher output and investment in the oil sector having been important conduits of the broad-based recovery from the 1998 crisis, the IMF said in its latest annual economic review. But, while still vibrant, the economy has softened since mid-2004 because of a slowdown in oil production and investment. Consumption has remained buoyant and has been the main source of domestic demand growth, fueled by continued rapid increases in real wages. The economy is expected to continue to grow robustly, although not at the pace seen in the first half of 2004. The IMF Executive Board viewed Russia's strong fundamentals as a window of opportunity to advance the structural reform agenda.

Fiscal policy has offset much of the stimulus arising from the large terms of trade gains associated with oil price increases, with the general government surplus having increased every year since 2001. The underlying fiscal stance—as measured by the non-oil general government balance—is currently being relaxed, however, and the Board cautioned that this move could exacerbate inflationary pressures and quicken the pace of real ruble appreciation. At the same time, once expansionary cyclical pressures ease, there is ample room to spend more of the oil windfall. Thus, the Board strongly advised against further loosening of fiscal policy in the short term and encouraged the

Russia	2002	2003	Prel. 2004	Proj. 2005
		(percent change)		
Real GDP	4.7	7.3	7.2	5.5
CPI annual average	15.8	13.7	10.9	12.9
		(percent of GDP)		
General government balance	0.6	1.1	5.0	7.6
		(dollars per barrel)		
Russian oil price	23.5	27.3	34.3	47.3

Data: Russian authorities and IMF staff estimates and projections.

authorities to develop an integrated medium-term fiscal and structural reform plan for utilizing Russia's oil resources.

The Board urged the authorities to give priority to reforms—especially civil service and public administration reforms—that would improve the investment climate, help nurture new private enterprises, and promote economic diversification.

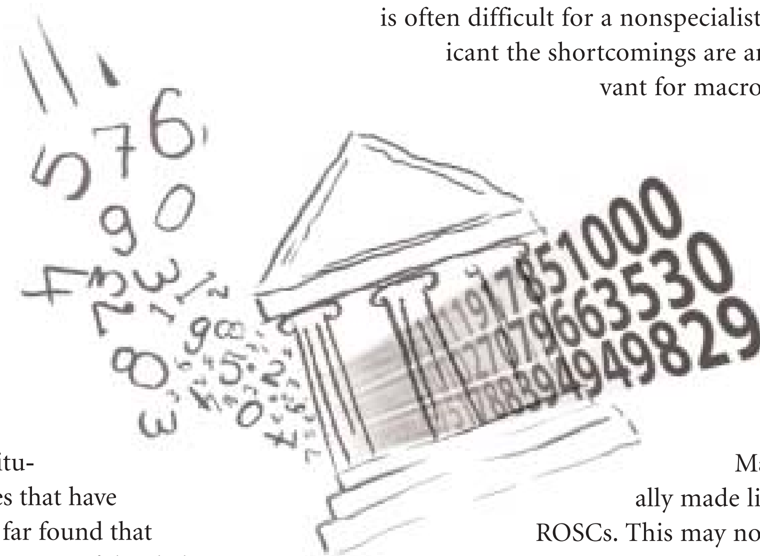
Monetary policy remains relatively lax. Although reserve money growth has slowed somewhat since mid-2004, it has remained high, as has the growth of broader monetary aggregates. Rising headline inflation and declining interest rates point to a continued accommodative stance. ■

For more information, refer to IMF Public Information Notices No. 05/140 (Mongolia), No. 05/130 (Russia), No. 05/138 (Syria), and No. 05/139 (Zimbabwe) on the IMF's website (*www.imf.org*).

Revisiting the standards and codes initiative

Introduced in the wake of emerging market crises in the mid- and late 1990s, the joint IMF–World Bank standards and codes initiative was designed as part of efforts to strengthen the international financial architecture and promote greater financial stability. Six years later, how is the initiative faring? The IMF's Policy Development and Review Department recently published the findings of a review of experience that also looks at what the future holds for the initiative.

The IMF's standards and codes initiative (see box) set three objectives for itself: helping countries strengthen their economic institutions; helping IMF and World Bank staff better address countries' needs and risks; and providing information to financial markets, thereby allowing market discipline to work more effectively. How effective has it been in meeting these goals? The review found that while the first two objectives are being at least partially met, markets are not yet using the Reports on the Observance of Standards and Codes (ROSCs) as much as expected.



Massoud Etemadi/IMF

A worthwhile undertaking

Have ROSCs helped countries strengthen their economic institutions? Most of the 122 countries that have participated in the initiative so far found that the exercise had been generally very useful in helping them set priorities for improving their policy frameworks. Emerging market countries in particular were positive, with many pointing out that the initiative had also had the effect of improving their policy dialogue with the IMF and the World Bank.

However, when asked whether an assessment had been helpful in triggering actual reforms, the answer was only "to some extent." While this disappointing finding may reflect the often substantial time needed to implement institutional reforms, it may also indicate that countries need more assistance with the implementation of the ROSCs' recommendations. Both the IMF and the World Bank are looking into ways to further improve delivery of technical assistance.

Useful for the Fund?

With respect to fulfilling its second objective—helping IMF and World Bank staff better address countries' needs and risks—the initiative also appears to have been at least partially successful. On average, IMF mission chiefs considered the initiative helpful "to some extent" in strengthening surveillance (the IMF's regular monitoring of economic developments and policies in its member countries and the global economy, and its associated policy advice). Some mission chiefs, including close to 40 percent of those working on emerging market economies, were much more positive, indicating that the initiative had informed surveillance to a "great" or "very great" extent. A problem encountered by country teams—as well as market participants—is that while ROSCs contain recommendations for improvement, it is often difficult for a nonspecialist to gauge just how significant the shortcomings are and whether they are relevant for macroeconomic performance.

Markets would like more clarity

The most disappointing finding was with respect to the third objective—providing information to financial markets.

Market participants generally made limited direct use of ROSCs. This may not so much reflect a lack of interest in the topics covered by the ROSCs, but rather what market analysts see as the product's shortcomings. Most important among them are the low frequency of ROSC updates and the absence of ratings for compliance with the various standards, which make it hard for analysts to compare results across countries and to assess progress over time.

On the positive side, rating agencies say they typically use ROSCs, which in turn influences the behavior of other market participants. A majority of respondents also said they use private alternatives to ROSCs in their work, which, in turn, are partly based on ROSC findings. But on the whole, market participants said substantial changes would be needed for ROSCs to become more widely used. Such changes should include quantitative measures of compli-

A primer on standards and codes

The standards and codes initiative spans standards in 12 different areas, covering three broad topics:

- **policy transparency** (data, fiscal, and monetary and financial policy transparency);
- **financial sector regulation and supervision** (banking supervision, insurance supervision, securities regulation, payments and settlements systems, and anti–money laundering and combating the financing of terrorism); and
- **market integrity** (corporate governance, accounting, auditing, and insolvency and creditor rights).

Assessments of how country practices compare to internationally recognized standards in these areas are carried out mainly by the IMF and the World Bank. The results are presented in Reports on the Observance of Standards and Codes (ROSCs). For financial sector standards, assessments are usually conducted in the context of the joint IMF–World Bank Financial Sector Assessment Program. Participation in standards assessments is voluntary, as is ROSC publication.

More than 700 ROSCs have been done so far, mostly in the areas of policy transparency and banking supervision, followed by other types of financial sector assessments. Because many countries have already participated, fewer of these types of ROSCs are being done. In contrast, the pace of data ROSCs being done has remained steady, while market integrity assessments have been on the rise, along with assessments of the relatively new standard for combating money laundering and terrorist financing.

Participation in the initiative has been very high for emerging market countries and advanced economies, but lower for developing countries. About 90 percent of advanced economies and emerging market countries have had at least one ROSC done, compared to 50 percent of developing countries. Developing countries now represent the bulk of first-time participants, although not all the standards may be relevant for their particular stage of development.

Participation has also been uneven across regions. Participation rates were highest for Europe, including Eastern Europe, and lowest for East Asia and sub-Saharan Africa. For emerging market countries, participation has been substantially lower in Asia than in other regions. In some cases, low participation rates may reflect countries' preference to undertake reforms prior to participation. Most of the world's largest economies have completed several assessments, but there are notable exceptions, including the United States and China.

ance, annual updates, and routine inclusion of ROSC conclusions and recommendations in IMF country reports.

The future

So where does this leave the initiative? In discussing the findings of the review, the IMF's Executive Board said the initiative had already delivered substantial results and was expected to yield further benefits, particularly when it came to helping countries implement institutional reforms. However, the objective of providing more information to the markets would likely remain elusive.

To improve the initiative's effectiveness, the Board recommended a number of changes, calling for the following:

- ***More targeting.*** Stronger efforts to ensure that countries that participate in the initiative are those most likely to benefit from it. The existing process for deciding which countries to assess should be strengthened to ensure that resources are deployed where they are most needed.
- ***Greater flexibility in updates.*** While it would be too costly to update the current stock of ROSCs as frequently as market participants would like, priority should be given to countries in which significant gaps have been identified during previous assessments and to updates that would contribute the most to national or systemic stability. Directors agreed that an average update frequency of five years was an acceptable target.
- ***Better integration.*** Directors supported measures to strengthen the integration of the initiative with other aspects of the IMF's work, including surveillance and technical assistance. These mainly involve better coordination between and within the IMF's various departments.
- ***Improved clarity.*** Directors recommended that each ROSC include an executive summary providing a clear assessment of the overall degree of observance of the standard, a principle-by-principle summary of the observance of the standard, and a prioritized list of recommendations. ■

Jean-François Dauphin
Piyabha Kongsamut
IMF Policy Development and Review Department

The full review, titled "The Standards and Codes Initiative—Is It Effective? And How Can It Be Improved?" is available on the IMF's website (*www.imf.org*).

Corporate bond markets: Growing pains and knowledge gains

Since the mid-1990s, corporate bond markets have become a more important source of private sector financing, in emerging market as well as mature economies. National authorities have been giving bond market development more prominence on their agendas, but in many countries these markets remain largely underdeveloped. A new IMF study identifies common fundamental requirements for developing deep and liquid local corporate bond markets. Authors Pipat Luengnaruemitchai and Li Lian Ong (IMF International Capital Markets and Monetary and Financial Systems Departments) discussed their findings with Jacqueline Irving of the IMF Survey.

IMF Survey: What did you identify as the main requirements for developing corporate bond markets?

Ong: Experience across both mature and emerging market economies suggests that a set of key features must coexist for corporate debt markets to evolve and develop. Drawing on extensive research we had done for previous issues of the [IMF's] *Global Financial Stability Report*, including insights we gained through meetings with policymakers and financial market participants, we identified certain common fundamental requirements—such as reliable market infrastructure, credible benchmark issues in the form of liquid securities with relatively low default risk, good corporate governance and transparency, and the maturing of domestic institutional investors. As for the benchmarking requirement, the low credit risk and high liquidity features of government securities can make them natural providers of benchmark interest rates. This, in turn, can facilitate issues of similar maturity terms by the private sector.

Luengnaruemitchai: Other aspects, including credit-risk pricing; government policies, such as taxes and issuance regulations; the role of foreign investors; and the sequencing of market reforms, have a less clear-cut impact on bond market development.

IMF Survey: What has driven the emergence of corporate bond markets over the past decade, and how have patterns of market development differed across regions?

Luengnaruemitchai: Institutional and policy factors have played a very important role in mature markets. In Europe, for example, the euro's introduction at the beginning of 1999 acted as a catalyst for further corporate debt market development, with private debt issuance more than doubling to about $680 billion in 1999. European corporations took the opportunity to quickly set benchmarks with euro issues and diversify their liabilities away from the previous reliance on bank loans.

In some emerging markets, there was a necessary push for developing bond markets in the wake of financial crises. In Asia, a lack of bank financing and the need to restructure balance sheets provided an important impetus for corporate debt issuance. In Latin America, the rapid growth of local institutional investors, along with the corporate sector's large refinancing needs in a difficult external environment, were key drivers.

Ong: Generally speaking, the implementation and sequencing of reforms are key for market development. But this is easier said than done. And, while a number of countries have made substantial headway in developing their government bond markets, corporate bond markets have been developing more slowly. There are various possible reasons for this, including a lack of liquidity in secondary markets, the absence of a meaningful investor base with developed credit assessment skills, and high costs of local issuance. Even in mature markets, such as the United States and Europe, where corporate bond markets are more developed, the majority of bond issues are still relatively illiquid.

IMF Survey: So what can be done to make even these mature markets more liquid—to stimulate secondary market trading?

Luengnaruemitchai: That's a difficult question. Since different issues have different characteristics, the corporate bond market may not be as liquid as the government bond market, where the characteristics of issues of similar maturity are more uniform. In the United States and some mature European markets, the development and evolution of derivatives markets have also played an important role in deepening the corporate bond markets.

Ong: Of course, secondary market liquidity is worse in the case of most emerging markets, where only a few large corporations are able to issue bonds on a scale that is sufficient to create a market where investors can change their trading positions without moving the price against them. This problem is exacerbated by the underdevelopment of derivatives markets in some of these countries, which limits the ability of investors to hedge their exposures.

IMF Survey: Would you briefly explain the relationship between the development of government and corporate bond markets?

Luengnaruemitchai: Government debt securities provide a benchmark that plays a critical role in the development of domestic bond markets. While other liquid securities with relatively low default risk could also be used as benchmark issues, the low credit risk and high liquidity features of government securities have made them natural benchmarks for issues by private sector entities. The development of government bond markets can also have positive spillover effects for corporate bond markets—notably in that both markets can share the market infrastructure that is put in place, such as clearing and settlement systems, the primary market issuance process, and the data dissemination system. And development of government bond markets can cultivate an investor base that corporate bond markets could also tap.

IMF Survey: There has been considerable lack of consensus within the literature on the appropriate priority that should be given to securities market development within overall financial and economic development—particularly in less developed economies. Some believe that banks and securities markets have a complementary relationship in contributing positively to economic growth, while others support a "gradual approach," focusing on developing and improving the functioning and regulation of banking sectors ahead of securities markets. What's your view?

Ong: As the Asian crisis highlighted, a well-diversified financial system is clearly very important in that it would reduce vulnerability to systemic risk. An important condition for the smooth functioning of securities markets is the existence of good corporate governance and transparency to allow the credible pricing of securities. In underdeveloped markets, where information asymmetry is severe and the requisite institutional setting has not been established, banks may be able to provide more reliable intermediation services. If resources are scarce and, presumably, a banking system is already in place, the country would be better off focusing on strengthening the banking sector than spreading resources too thinly. In other words, priority should be given to making sure that the existing institutions operate in an environment where there is adequate infrastructure, and that the necessary legal and regulatory frameworks are in place.

It is important to keep in mind that when it comes to the sequencing of reforms, there is no set formula for all countries. This will depend on what the particular country has in place at the time, in terms of infrastructure, institutions, and regulatory framework.

IMF Survey: What prospects do you see for a regional approach to corporate bond market development—as in the establishment of the Asian Bond Funds [ABFs]?

Luengnaruemitchai: In some countries, which have yet to achieve minimum efficiencies of scale to develop well-functioning national markets, regional cooperation and cross-border

Henrik Gschwindt de Gyor/IMF

Pipat Luengnaruemitchai (left) and Li Lian Ong.

investment may be able to help broaden and deepen local markets. Although it may still be too early to tell, the prospects for the regional approach in Asia seem promising, with the launch of the second Asian Bond Fund [ABF2] in December 2004. ABF2 is comprised of a Pan Asia Bond Index Fund, investing in sovereign and quasi-sovereign local currency-denominated bonds issued in eight Asian states' markets—China, Hong Kong SAR, India, South Korea, Malaysia, the Philippines, Singapore, and Thailand—as well as eight national market funds. These national market funds each invest in sovereign and quasi-sovereign local currency–denominated bonds issued in their respective markets.

Ong: Ultimately, the aims of the ABF initiative are to raise investor awareness of Asian bonds as investment alternatives, improve the effectiveness of financial intermediation in Asia, promote new financial products and improve market infrastructure, and minimize regulatory hurdles in the individual national markets. In our view, the authorities in each country do have a role to play in market development, to the extent that they help establish the right environment for this to occur, or, as with the ABF initiative, help jump-start the process on a regional scale. The market mechanism should then be allowed to work without government interference, however, to ensure greater efficiency in the allocation of funds and to promote greater transparency. ■

Copies of IMF Working Paper No. 05/152, *An Anatomy of Corporate Bond Markets: Growing Pains and Knowledge Gains*, are available for $15.00 each from IMF Publication Services. See page 348 for ordering information. The full text of the paper is also available on the IMF's website (*www.imf.org*).

Interview with Daniel Citrin

With deflation being defeated, Japan turns to longer-term challenges

Japan is on the move again—not only putting behind it a soft patch in 2004 but also finally seeming to dispatch the demons of the bubble era. But as Daniel Citrin, Deputy Director of the IMF's Asia and Pacific Department, explains in an interview with Sheila Meehan of the IMF Survey, *Japan's policy priorities are not just about beating deflation. With an aging population and a shrinking labor force, Japan must now begin to put its fiscal house in order and vigorously pursue reforms designed to boost productivity and growth over the longer term.*

IMF SURVEY: Are the decisive election results and the seemingly more upbeat mood in Japan indications that the country has indeed turned the corner now?

CITRIN: Japan had turned the corner before the election. Over the past couple of years, growth had been picking up and has been quite robust. Exports drove this growth initially, but increasingly the forward momentum has been based on domestic demand. In fact, the pattern of growth has been broadening throughout the economy. Since late 2003, there has been a surge in private investment, and this is now gradually translating into stronger consumer sentiment; improved employment, both actual and prospective; and much stronger underpinnings for the household sector and consumer demand. This strengthening is, in part, attributable to steady reforms in labor and product markets as well as success in bank-balance-sheet restructuring and also corporate efforts to eliminate excess capacity and debt, all of which have been going on over the past five or six years. The September election results—which by many accounts amounted to a ringing endorsement of the government's plans—confirm the success of this strategy and take it to the next stage.

IMF SURVEY: But even with the added reform momentum, is this enough to truly banish the ghosts of the past?

CITRIN: A lot of people ask, "Is this the real thing this time?" There've been two or three false starts over the past 15 years. Growth would pick up initially but soon lose steam, and the economy would slip back into recession. The difference this time is that, finally, the excesses from the bubble period—excess labor, capital, and debt—have worked themselves out. Corporate profitability is back at levels that prevailed in the mid-1980s, and indebtedness is back down to pre-bubble levels. The big banks have completed balance-sheet restructuring, with levels of nonperforming loans now well below the authorities' target.

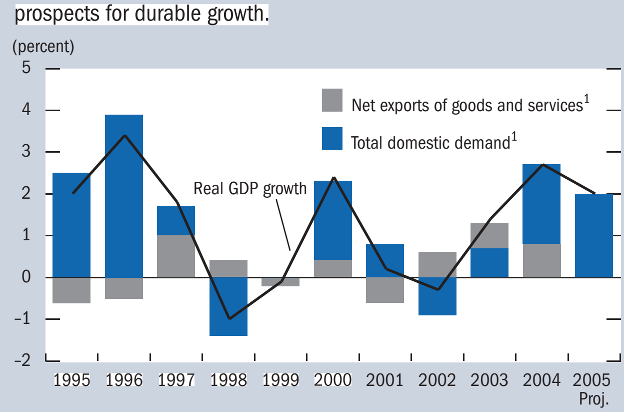
This year, there has also been progress on the employment front. During the long recessionary period, companies turned away from traditional lifetime employment and resorted to part-time workers—or workers on short-term contracts—to cut labor costs. This had a direct deflationary impact, because wages are about 40 percent lower for these types of workers. Labor income languished. Early this year, however, Japan reversed that trend. Large corporations are now increasing their hiring of full-time workers, and part-time employment—which peaked at some 30 percent of the total—is starting to decline. This is the final phase of the correction after the bubble, and it is why we, along with most other observers, are pretty confident that this time the recovery is for real.

IMF SURVEY: To what extent is Japan vulnerable to rising oil costs?

CITRIN: In the short term, this is the biggest risk. Rising oil prices are a problem mainly through the effects on the United States and other major trading partners. Japan itself has improved its energy efficiency tremendously over the past two decades, so the direct effects of rising oil prices on its economy are quite modest. On balance, though, Japan's stronger domes-

On the mend

A rebound in Japan's domestic demand suggests improved prospects for durable growth.



[1]Contribution to real GDP growth.
Data: Global Insight, Nomura database.

tic economy bodes well for growth prospects in the near term, and we're pretty confident that growth will be sustained at around 2 percent a year over the next couple of years.

IMF Survey: What does the IMF see as the key policy challenges going forward?

Citrin: First of all, on the macro side, despite the recovery, mild deflation does persist, so in the immediate future, it's still important for the authorities to have a supportive monetary stance that allows Japan to escape once and for all from its deflationary period. Monetary policy needs to remain extra-loose for a while, until deflation and deflation expectations are defeated. That time is clearly approaching, with CPI inflation widely expected to turn positive sometime next year.

IMF Survey: How should monetary policymakers manage this transition?

Citrin: There has been much speculation in recent months about the timing and nature of the BoJ's [Bank of Japan's] exit from its quantitative easing framework, with some worrying that the central bank will tighten policy prematurely. The exit will, of course, involve a shift to a more conventional one in which the BoJ will target a short-term interest rate—the way most central banks operate around the world. And I am confident that BoJ officials are well aware of the need to be flexible, taking into consideration both price developments and the general well-being of the economy. Thus, one can expect that the BoJ will aim to accomplish the transition in a gradual and transparent fashion, ensuring that market expectations and longer-term interest rates—which are critical for investment and consumption decisions—are not destabilized. In doing this, clear communication will be important, so that market participants are kept well informed of the BoJ's decision making. I believe the record thus far is encouraging in that regard.


Eugene Salazar/IMF

Citrin: "To support a reasonable level of social welfare as its society ages, there will need to be significant increases in the consumption tax—but the exact pace and timing for such increases are still to be decided."

IMF Survey: Are there challenges for fiscal policymakers too?

Citrin: Clearly the time has come for serious steps to address the budget deficit. The authorities have made efforts over the past couple of years, and these efforts need to continue to rein in an unsustainable pace of national debt accumulation. One big issue is tax reform. The government has to decide the right timing, but the problem has been recognized. The size of the budget deficit means that steps will need to be taken on both the spending and the tax sides.

On the spending side, there is still scope to eliminate wasteful public works. In terms of revenues, corporate tax rates are rather high already, but the income tax base is quite narrow, and there are lots of exemptions and special incentives. The main issue, though, is Japan's consumption tax, which is very low in comparison with other countries. Policymakers recognize that if the country is going to be able to support a reasonable level of social welfare as its society ages, there will need to be significant increases in the consumption tax—but the exact pace and timing for such increases are still to be decided.

IMF Survey: Isn't raising the consumption tax a bit tricky given that Japan, presumably, is looking to boost domestic demand?

Citrin: Absolutely. But if you look at the past four to five years, domestic demand has been accelerating in the face of a fairly significant reduction in public sector demand. Experience suggests that countries that tackle their underlying fiscal imbalances through steadfast efforts are better able to sustain growth over longer periods, and, even in the short term, convincing steps to address structural deficits can be growth enhancing. The time has come for a firm, meaningful effort to put Japan's public finances in order. It is up to the authorities to decide on the best strategy.

The public mood seems to be "before we start paying higher taxes, the government needs to demonstrate that it has done all that it can to cut wasteful spending"—measures that seem also to mean cutting fat within the bureaucracy. Mindful of the political winds, the Japanese government is already taking a hard look at civil service reforms, hoping for further savings in this area. Perhaps, the government will wait a bit before tackling the consumption tax, but it shouldn't delay for too long.

IMF Survey: And beyond the fiscal issues, what policies are needed to ensure durable growth?

Citrin: The main challenge for Japan in the years ahead will be to sustain strong growth in the face of population aging. Its working-age population—those between 15 and 64 years old—has already been shrinking for a few years, and by 2007, its total population is going to start shrinking. Estimates vary, but Japan could see close to a 35 percent decline in its working-age population by 2050.

Policymakers can do two things. They can continue to address the fiscal imbalance, reduce the debt burden on the population, and make room for the increasing costs of health care, pensions, and social security expenditures that will necessarily rise over time as Japanese society grows older. They should also pursue a broad set of structural reforms to enhance productivity growth and ensure that growth is robust enough to continue not only improving living standards but also paying for all the increases in social expenditures that accompany population aging.

IMF Survey: Which reforms are you thinking of?

Citrin: The list is long. Japan will need to make its labor markets more flexible, encourage more foreign direct investment, improve domestic competition, and pursue agricultural reform and liberalization. Progress has been made on a whole host of reforms, but more needs to be done to improve long-term growth prospects. It's a question of prioritizing and doing things steadily.

IMF Survey: Recently, an important step in this direction seems to have taken place with the approval of the plan to privatize Japan Post. How big a deal is this?

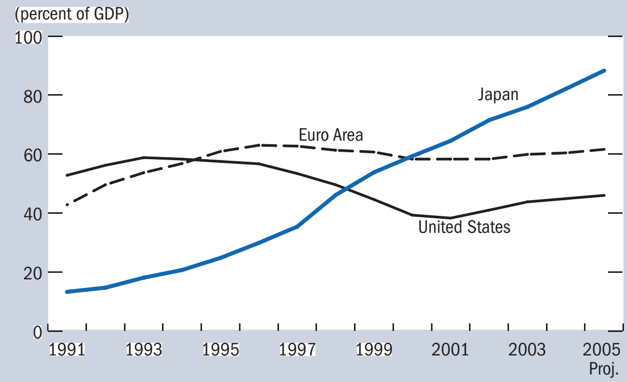
Citrin: It is a big deal. We are talking about funds that currently account for 30 percent of all household savings deposits in the country. The direct impact of the reform in the short term may not be that large, because Japan Post will be privatized over 10 years. But the large postal savings system has permitted fairly significant distortions. It provided a pool of savings that helped finance inefficient and wasteful public investment projects. And the postal savings system enjoyed cost advantages over private banks. It did not pay deposit-insurance premiums and enjoyed tax-free income. This has tilted the playing field against private financial institutions in an alarming way. Some of these cost advantages are now being eliminated. Clearly, a combination of a shrinking deposit base and a decline in public works spending will help reallocate financial resources to more productive uses.

IMF Survey: Do you see China's rising economic clout posing medium- or longer-term problems for Japan?

Citrin: At present, Japan retains a comparative advantage in higher technology, but over time, it can expect to be in direct competition with China in more and more sectors. But China's growth has created, and will continue to create, opportunities for Japan. There is a lot of Japanese foreign direct investment, and exports to China are growing faster than exports to any other destination—they now represent over 15 percent of total exports. Some of that represents inputs that are then used in manufacturing goods exported to the United States and elsewhere, but there is substantial exporting to meet China's domestic demand.

Worrisome public finances

Japan must tackle its high government debt, which has risen sharply in contrast to that of other major economies.



Data: IMF, *World Economic Outlook*.

IMF Survey: On balance, isn't it true that what's good for Japan is good for the world, and vice versa?

Citrin: The more Japan can do on the structural reform front to boost growth, the better this will, on balance, support domestic demand and help reduce global current account imbalances—a continuous threat hanging over the global economy. Of course, the issue is how fast Japan should put its fiscal house in order, given that standard macro models suggest that fiscal contraction will lead to a larger current account surplus. But we see any policy mix that combines structural reforms and fiscal consolidation not only directly boosting productivity growth but also strengthening the resilience of private domestic demand. And this, in turn, leads to a healthier Japan and a reduction in global imbalances over time. So, yes, policies that are good for Japan are good for the world. ■

The full text of the IMF staff report on Japan (Country Report No. 273), Selected Issues (Country Report No. 272), and Public Information Notice (No. 05/105) issued at the conclusion of the IMF Executive Board's discussion is available on the IMF's website (*www.imf.org*).

HIPC debt relief (status as of November 3, 2005)

IMF member	Decision point	Completion point	Amount committed	Amount disbursed[1]
			(million SDRs)	
Heavily Indebted Poor Countries (HIPC) Initiative				
Under original 1996 Initiative				
Bolivia	September 1997	September 1998	21.2	21.2
Burkina Faso	September 1997	July 2000	16.3	16.3
Côte d'Ivoire	March 1998	—	16.7[2]	—
Guyana	December 1997	May 1999	25.6	25.6
Mali	September 1998	September 2000	10.8	10.8
Mozambique	April 1998	June 1999	93.2	93.2
Uganda	April 1997	April 1998	51.5	51.5
Total original HIPC			**235.3**	**218.6**
Under the 1999 Enhanced HIPC Initiative				
Benin	July 2000	March 2003	18.4	20.1
Bolivia	February 2000	June 2001	41.1	44.2
Burkina Faso	July 2000	April 2002	27.7	29.7
Burundi	August 2005	Floating	19.3	0.1
Cameroon	October 2000	Floating	28.5	11.3
Chad	May 2001	Floating	14.3	8.6
Congo, Democratic Republic of the	July 2003	Floating	228.3[3]	3.4
Ethiopia	November 2001	April 2004	45.1	46.7
Gambia, The	December 2000	Floating	1.8	0.1
Ghana	February 2002	July 2004	90.1	94.3
Guinea	December 2000	Floating	24.2	5.2
Guinea-Bissau	December 2000	Floating	9.2	0.5
Guyana	November 2000	December 2003	31.1	34.0
Honduras	June 2000	April 2005	22.7	26.4
Madagascar	December 2000	October 2004	14.7	16.4
Malawi	December 2000	Floating	23.1	11.6
Mali	September 2000	March 2003	34.7	38.5
Mauritania	February 2000	June 2002	34.8	38.4
Mozambique	April 2000	September 2001	13.7	14.8
Nicaragua	December 2000	January 2004	63.5	71.2
Niger	December 2000	April 2004	31.2	34.0
Rwanda	December 2000	April 2005	46.8	50.6
São Tomé and Príncipe	December 2000	Floating	—	—
Senegal	June 2000	April 2004	33.8	38.4
Sierra Leone	March 2002	Floating	98.5	66.0
Tanzania	April 2000	November 2001	89.0	96.4
Uganda	February 2000	May 2000	68.1	70.2
Zambia	December 2000	April 2005	468.8	508.3
Total Enhanced HIPC			**1,622.5**	**1,379.1**
Combined total			**1,857.8**	**1,597.7**

Definitions

Decision point: Point at which the IMF decides whether a member qualifies for assistance under the HIPC Initiative (normally at the end of the initial three-year performance period) and decides on the amount of assistance to be committed.

Completion point: Point at which the country receives the bulk of its assistance under the HIPC Initiative, without any further policy conditions. Under the Enhanced HIPC Initiative, the timing of the completion point is linked to the implementation of pre-agreed key structural reforms (that is, floating completion point).

[1]Includes interest on amounts committed under the Enhanced HIPC Initiative.

[2]Equivalent to the committed amount of $22.5 million at decision point exchange rates for March 17, 1998.

[3]Amount committed is equivalent to the remaining balance of the total IMF HIPC assistance of SDR 337.9 million, after deducting SDR 109.6 million representing the concessional element associated with the disbursement of a loan under the Poverty Reduction and Growth Facility following the Democratic Republic of the Congo's clearance of arrears to the IMF on June 12, 2002.

Data: IMF Finance Department.

Debt and trade dominate legislators' conference

In a year marked by high-profile initiatives to cancel debt, increase trade openness, and ensure more effective aid, what can parliamentarians do to help bridge the critical distance between promises and progress? At the sixth annual conference of the Parliamentary Network on the World Bank (PNoWB), on October 21–23 in Helsinki, some 200 members of parliament from about 90 countries joined representatives of civil society organizations, think tanks, and multilateral agencies to discuss these issues.

The recent Group of Eight (G8) initiative to cancel debts owed by many of the heavily indebted poor countries (HIPCs) was welcomed by all, but the discussion revealed some uneasiness. Charles Mutasa of the African Forum and Network on Debt and Development, argued that the original HIPC initiative and now the G8 proposal do not include several countries with heavy debt burdens.

Vesa Lindquist/Parliament of Finland

World Bank President Paul Wolfowitz (top left) meets with legislators in Helsinki.

The World Bank's Vikram Nehru cautioned that depending on how many countries are finally included, the cost to the International Development Association (IDA) could jeopardize future lending. Alison Johnson of Debt Relief International echoed these reservations, saying that debt relief should not compromise the IMF's future lending to low-income countries or to countries facing exogenous shocks. Johnson and others hoped that no additional conditionality would be attached to debt cancellation.

Parliamentarians can also do a lot to ensure that their countries reap the benefits of debt cancellation. Johnson called on delegates from borrowing countries to carefully scrutinize government actions and ensure that relief actually helps countries reach the Millennium Development Goals. Legislators should also monitor borrowing by the executive branch and avoid piling up unsustainable debts again. Mutasa suggested setting up a debt-management office supervised by the parliament. And Nehru urged parliamentarians from donor countries to do their part to see that commitments to compensate IDA are fulfilled.

Waiting for Hong Kong

"When two elephants fight, the grass ends up suffering," said Mutahi Kagwe, a parliamentarian from Kenya, describing the present state of negotiations between the United States and the European Union (EU) over agricultural subsidies. Pascal Lamy, World Trade Organization Director General, speaking via video link, voiced grave concern that the current U.S. and EU positions were too far apart for negotiations to progress. Should the Hong Kong ministerial meetings collapse, he said, it would derail chances of completing the Doha Development Round by end-2006. Why is agreement so elusive? Bert Koenders, a delegate from the Netherlands and chair of PNoWB, observed that "too often politicians view the world as a risk rather than an opportunity."

Capacity building

Turning to the role of parliament as watchdog, several speakers lamented that limited resources and information make it difficult to effectively monitor the actions of the executive branch. Among those organizations that can help are the World Bank Institute, which has an extensive parliamentary training program. Peter Koeppinger pointed out that his own organization, the Konrad-Adenauer Stiftung, offers extensive capacity building not only to parliamentarians but also to legislative staff and political parties. Peer training may be even more valuable, suggested Beatrice Kiraso, a parliamentarian from Uganda, and she encouraged legislators to share their experience and knowledge. ■

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