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In this issue

Program review

IMF Executive Board approves $8 billion augmentation of Stand-By credit for Turkey

The IMF's Executive Board on May 15 approved an augmentation of Turkey's three-year Stand-By Arrangement by SDR 6.4 billion (about $8 billion), bringing the total to SDR 15 billion (about $19 billion). The full text of Press Release 01/23, including details of Turkey's economic program, is available on the IMF's website (www.imf.org).

The Board's decision, made in conjunction with the completion of the sixth and seventh reviews of its economic program, will enable Turkey to draw up to SDR 3 billion ($3.8 billion) immediately. Further drawings of SDR 1.2 billion (about $1.5 billion) each will be made available not earlier than June 25 and July 25, and of SDR 2.4 billion (about $3 billion) each not earlier than September 20 and November 15 following the completion *(Please turn to the following page)*

Turkish Economy Minister Kemal Dervis conferred with IMF Managing Director Horst Köhler during the International Monetary and Financial Committee meeting in April.

Address to Council of the Americas

Köhler stresses need for national commitment and international support for Americas

Following are edited excerpts of an address given by IMF Managing Director Horst Köhler to the Council of the Americas on May 7 in Washington. The full text is available on the IMF's website (www.imf.org).

On balance, I assess the situation in Latin America and the Caribbean as being fundamentally better today than it was 10 or 20 years ago. Countries throughout the region have clearly embraced democracy, open markets, and macroeconomic stability.

It is clear that Latin America and the Caribbean still face difficult challenges. In particular, too many people still live in poverty. Steps to strengthen governance and fight corruption have often lagged behind other reforms, undermining credibility and investor confidence. And because many countries are major borrowers in international capital markets, they are particularly vulnerable to volatility in the markets. A strategy to meet these challenges is to promote transparency, competitiveness, and sound democratic institutions. Because the people in this region—as in the rest of the world—strive for a better future, this will pay off in more investment, stronger economic growth, and better social development. This will also pave the way for better access to capital markets. In this regard, efforts to strengthen the soundness of banking sectors have already put many Latin American economies in a better position to withstand external shocks.

IMF and crisis prevention

Recent developments in international financial markets have clearly demonstrated that the IMF needs to work even harder to put crisis prevention at the heart of all its activities. Highest on our agenda for the coming months will be further work on early warning of potential crises. For this, we need to combine quantitative indicators of vulnerability with judgment from the field and from the *(Please turn to the following page)*

IMF augments support for Turkey

(Continued from front page) of further reviews of the program.

Following the Board discussion, IMF First Deputy Managing Director Stanley Fischer said:

"The IMF welcomes the strengthened program prepared by the new economic team in Turkey. Full implementation of this program should restore macroeconomic stability and address the structural root causes of the country's problems, thereby laying the foundations for the resumption of growth.

"The Turkish program aims at strengthening confidence, addressing the costs arising from the crisis by increasing the primary fiscal surplus, speeding up the reform of the banking sector, and undertaking wide-ranging structural reforms. Decisive implementation of the program's policies, together with the availability of significant additional external support, should initiate a virtuous cycle characterized by lower interest rates, stronger public finances, and a recovery of economic activity.

"The IMF commends the depth and breadth of the new economic program. The emphasis on banking reform is appropriate, especially given the structural weaknesses in this area that were seen during the recent crises. The elimination of public sector banks' large overnight exposure, their full recapitalization, and the overhaul of their governance structure will go a long way to strengthen the financial sector. In addition, measures to privatize key companies and reform major domestic markets, including the telecommunications, electricity, natural gas, tobacco, and sugar markets, and to enhance governance and improve transparency, are essential elements of the program.

"The program's macroeconomic policies are strong, in particular the major fiscal effort that the Turkish authorities are undertaking to reestablish fiscal solvency. On monetary policy, the adoption of the new central bank law will give the central bank operational independence in the pursuit of price stability. In the short term and before a full-fledged inflation targeting framework is put in place, monetary policy will focus on the control of monetary aggregates in the context of a floating exchange rate framework.

"The IMF is demonstrating its backing for this ambitious program by providing exceptional financing in its support. Its success will take both determined implementation by the authorities and sustained support by the private sector," Fischer said. ■

Köhler addresses Council of Americas

Our objective should not be to have more and bigger rescue package but to reduce the frequency and severity of crises.
—Horst Köhler

(Continued from front page) markets. This should involve cooperation with the private sector. To ensure the maximum beneficial impact, it will be important for this work to move forward with the full participation of the IMF's membership and with due care that our warnings about potential crises do not become self-fulfilling prophecies.

As part of this effort, the IMF also needs to do a better job of keeping up with developments in international capital markets. The new International Capital Markets Department will help the IMF deepen its understanding of, and judgment on, capital market issues. Our informal but regular dialogue with senior representatives of private financial institutions, through the Capital Markets Consultative Group (CMCG), will further strengthen our work on crisis prevention and resolution.

The philosophy behind the IMF's Contingency Credit Lines (CCL) is that good policies are still the best precaution that our members can take against crises. This IMF lending facility is designed to reward countries that have established a strong track record of good policies in normal times and help them resist contagion. Mexico could be one of the first countries to make use of the CCL.

No matter how much effort goes into crisis prevention, we must recognize that economic disruptions and crises cannot be ruled out in an open and dynamic global economy. Therefore, our objective should not be to have more and bigger rescue packages, but to reduce the frequency and severity of crises.

But I also want to emphasize that the IMF's track record in crisis management has not been all that bad. In this region, for instance, the IMF played an important part in Chile's successful transition from economic and institutional disaster to democracy and sustained growth. More recently, the IMF's contribution was crucial in enabling Mexico and Brazil to overcome their crises and resume strong economic growth. Since then Mexico has repaid all of its borrowings from the IMF, and Brazil almost all, and both are sticking to good policies.

I am also confident that Argentina and Turkey will weather the storm. Both of them have taken strong ownership of measures to address their problems, and both have chosen a market-oriented approach. These efforts deserve strong support. And let me make clear that the IMF stands ready to help any member country that is willing to adopt the right policies.

Promoting growth, reducing poverty

Because private flows are an indispensable source of financing for development, another crucial function of the IMF's new Capital Markets Department will be to strengthen our ability to help countries gain access to international capital markets.

Only by getting access to investment capital from the rest of the world will the IMF's poorest member countries be able to make a real breakthrough in poverty reduction. The IMF should therefore be ambitious in assisting them in this process. This is one of the reasons why the IMF must stay engaged with poor countries. At the same time, it is clear that the IMF must remain focused on its mandate—promoting sound macroeconomic policies and domestic and international financial stability as preconditions for sustained growth.

Bolivia, Guyana, Honduras, and Nicaragua are benefiting from debt relief under the Heavily Indebted Poor Countries (HIPC) Initiative. But the most important thing we can do to help fight poverty is to empower poor countries to help themselves. Crucial for this is increased access to markets in the industrial countries, in particular for products that matter the most to the HIPCs, such as agricultural products, textiles, and other manufactured goods. Here, no industrial country is free from sin.

Fischer announces he will resign as First Deputy Managing Director of IMF

Stanley Fischer, First Deputy Managing Director of the IMF, announced on May 8 that he would be leaving his position later in 2001, as soon as a smooth transition to his successor had been arranged (IMF Press Release No. 01/22, May 8).

In a statement announcing his decision, Fischer said, "I will leave the IMF with the highest respect for this institution and the deepest regard and affection for its dedicated and outstanding staff." He expressed his gratitude to the two Managing Directors with whom he has served, Michel Camdessus and Horst Köhler, and to the member country authorities with whom he has worked closely. Köhler paid tribute to Fischer as "an extraordinary economist and public servant," adding that he had benefited from Fischer's advice and support, as well as from his integrity and humanity, during his first year in the IMF.

Fischer, 57, took up his position in 1994 for an initial five-year term. He was appointed to a second five-year term in 1999. He was previously the Killian Professor and head of the Department of Economics at the Massachusetts Institute of Technology. From 1988 to 1990, he served as Vice President for Development Economics and Chief Economist at the World Bank.

Fischer served at the IMF during one of the most active and eventful periods of its history. The IMF responded to the Mexican crisis of 1994–95, the Asian crisis of 1997–98, the continuing problems that affected the Russian economy, the Brazilian crisis of 1998–99, and, most recently, the crises in Argentina and Turkey, during his tenure.

Press conference

Discussing the events of the past seven years at a May 8 press conference, Fischer said that he regards the revolution in IMF transparency as the most important development in that period. He added, "We published essentially nothing in 1994, and we publish almost everything now. We talk to you [the press] far more than we ever did. We talk to the public in member countries far more than we ever did, and that is wholly to the good."

Fischer said there were many achievements of which an IMF official might feel proud. These included the success of the Brazilian program in 1999, the design over a single weekend of a new monetary system for Bosnia-Herzegovina, and the measures taken to prevent hyperinflation in Bulgaria.

"The IMF, by and large, is called on to operate in very, very difficult circumstances," he said, adding, "I think the record speaks for itself that the Asian countries that followed the agreed programs with the IMF were the ones that succeeded and that came back most rapidly." Asked whether in the future the IMF would play a greater role in the developing countries, Fischer replied that "the process that was invented for the HIPCs [heavily indebted poor countries], the very close integration between the work of the [World] Bank and the IMF… is a very good way of doing business. It means that we do the macroeconomics in programs where the structural components are handled by the Bank."

He expressed his hope that the ongoing work to change the structure of the international system and to clarify the role of the exchange rate in crises would mean that his successor would deal with fewer crises. Also significant is "the work we're doing on strengthening of financial systems and improved debt management," he said.

As for his plans for the future, Fischer said that, while he would step down as First Deputy Managing Director once his successor came on board, he would remain in the IMF for a few months to work on some papers and possibly a book. (The complete transcript of Fischer's press conference is available on the IMF website: www.imf.org.)

Staff Association statement

In a statement, the IMF Staff Association Committee expressed its highest regard for Fischer's integrity, honesty, and impartiality toward member countries and the IMF staff. Noting that his "dedication to his work is legendary," the statement said Fischer would "leave the IMF a stronger place than he found it…. He has raised our intellectual standards and strengthened our sense of mission. During the last year, he has directed his energies to supporting the Managing Director's vision for the IMF of promoting international financial stability by concentrating on our core areas of expertise, a vision that is already beginning to show results and that the staff heartily endorses."

We published essentially nothing in 1994, and we publish almost everything now.
—Stanley Fischer

The expansion of international trade has been one of the channels through which globalization has contributed to unprecedented world prosperity in our lifetimes. Other channels have included technological innovation—especially in transportation, communications, and medicine—rising standards of education, the spread of democracy and free markets, and the growth of international capital markets. Of course, each of these phenomena poses both opportunities and risks. Indeed, 10 years after the end of the Cold War, a plethora of new challenges is confronting us, and there is a vigorous debate about the advantages and disadvantages of globalization. In my view, the opportunities clearly outweigh the risks. And I would much rather face these challenges than the problems of the Cold War.

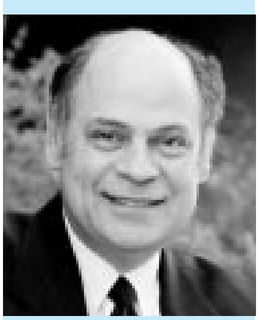
The Americas are well placed to lead by example and to demonstrate how to secure a good future for all people of the world. The IMF looks forward to supporting them in this effort. ■

IMF Institute seminar

Regional gathering focuses on challenges of extending benefits of globalization in Africa

Mohamed Daouas

Abbas Mirakhor



Saleh M. Nsouli

Although there are now signs of progress in an increasing number of African countries, determined efforts are needed to accelerate the region's integration into the world economy, promote rapid economic growth, and substantially reduce poverty. To review Africa's current situation and challenges in an increasingly interconnected world economy, the IMF Institute organized, in the context of its program of activities with the Joint Africa Institute (JAI), a high-level seminar on globalization and Africa, which was held in Tunis on April 5–6. The seminar, cohosted by the Central Bank of Tunisia, brought together ministers, central bank governors, and other officials from 14 African countries (including 3 North African countries), representatives of a number of regional organizations, IMF Executive Directors representing African countries, and senior IMF staff.

Issues and challenges

In an opening session, chaired by Michel A. Dessart, Director of the JAI, the basic issues and challenges were laid out by the Governor of the Central Bank of Tunisia, Mohamed Daouas; IMF Executive Director Abbas Mirakhor; and IMF Institute Deputy Director Saleh M. Nsouli. Governor Daouas remarked that globalization is a "multidimensional reality" that offers great economic and other benefits but also entails many risks. The challenge was to make globalization a process of full integration, rather than one of exclusion, among nations. Recognizing that most African countries needed to catch up with other developing countries in terms of economic growth and living standards, he called for the implementation of improved policies and reforms, especially with a view to boosting private investment and human resource development. Daouas emphasized that Tunisia pursued such policies and reforms with considerable success and remained committed to a strategy of openness to the global economy. Mirakhor welcomed Tunisia's economic and social progress, and expressed confidence in Africa's ability to meet the challenges of globalization. Looking ahead, he underscored a number of critical issues facing developing countries, including the need to increase their influence in international forums. For his part, Nsouli highlighted the importance of more concerted efforts by developing countries and the international community to make globalization work better for the benefit of all the peoples of the world.

The challenges of globalization were set out in a broader framework in a paper presented by Nsouli on behalf of Michael Mussa, Economic Counsellor and Director of the IMF's Research Department. In that paper, Mussa noted that, in general, globalization has been associated with rising real living standards, but it has never been and is not likely to become an entirely benign phenomenon. Empirical research has shown that relatively open policies toward international trade are generally associated with stronger rates of economic growth. At the same time, a series of financial crises, he explained, have provided significant reason for concern about the instability of international capital flows, especially short-term credit flows to emerging market economies. But Mussa argued that appropriate measures are available to reduce the risk and lessen the damage of such capital flow instabilities (especially through responsible government debt management and prudent regulation and supervision of financial institutions), without countries' resorting to draconian efforts to resist the increasing integration of international capital markets.

Explaining Africa's experience

Focusing on the issues of globalization in Africa, S. Ibi Ajayi, Professor of Economics at the University of Ibadan, explained that African countries had lagged behind other developing countries for various reasons, including adverse external conditions, heavy dependence on primary products, macroeconomic policy errors, lack of financial depth, deficient infrastructure facilities, and ethnic and tribal divisions. For all these reasons, Africa has been unable to reap the benefits of globalization. However, Ajayi indicated that globalization alone could not solve all of Africa's problems. African countries must grow much faster to reduce poverty and, hence, need to create a stable macroeconomic environment, reliable institutions, and good and responsible government structures.

Policies and reform

Evangelos A. Calamitsis, former Director of the IMF's African Department, joined Ajayi in calling for a strengthening of the policy environment in sub-Saharan Africa to improve the region's competitiveness, accelerate its integration into the global economy, promote rapid economic growth, and make a real dent in poverty. To reach the International Development Goals for 2015, especially the goal of reducing extreme poverty by one-half, African countries have to raise their real GDP growth to 7–8 percent a year on a sustained basis; they also have to significantly improve social conditions, including addressing the HIV/AIDS pandemic. Although each African country will have to formulate a development strategy that best suits its circumstances and the will of its people, Calamitsis suggested that most countries would probably need to implement policies and reforms designed to consolidate macroeconomic stability, enhance human resource development, improve basic infrastructure and spur agricultural development, accelerate trade liberalization and reinforce economic integration, promote a sound banking system, foster private investment, and ensure good governance in all its aspects.

In the area of trade reform, many African countries have made considerable progress since the early 1990s. Nevertheless, in general, the trade regimes of African countries are still more complex and restrictive than those of other regions. Robert L. Sharer, Assistant Director in the IMF's African Department, argued that further trade liberalization is essential but, to be successful, it should be coupled with market-oriented domestic policy reforms. He added that regional integration could improve economic efficiency and increase market size; however, it could not substitute for the liberalization of trade regimes vis-à-vis major trading partners, which should continue to be an important element of sound reform programs.

To facilitate Africa's full integration into the global economy, Seyni Ndiaye, Senegal's National Director of the Central Bank of West African States, emphasized that most countries would also have to undertake far-reaching institutional reforms. Notably, they should limit the role of the state to delivering essential public services; promote a dynamic private sector within a liberal and transparent regulatory framework; and strengthen the role of civil society, which could contribute importantly in fighting poverty and protecting the environment. Ndiaye further stressed the need to improve the human condition through education and health care and expressed the hope that African countries could count on external technical assistance, particularly in the use of the latest information and communication technologies.

Mauritius

The seminar covered a number of specific cases, which served as a reminder that African countries can indeed be successful in joining the global economy and substantially reducing poverty. In presenting one such case, Arvind Subramanian, Division Chief in the IMF's African Department, noted that Mauritius has made remarkable economic and social progress since the early 1970s. Although Mauritius has defied in some respects the "Washington consensus" through heavy intervention and targeting in trade, including by creating export processing zones, its overall experience attests to the importance of stable macroeconomic policies, neutrality of incentives between tradable and nontradable sectors, and an efficient services sector. More decisive perhaps, according to Subramanian, is the role of the country's institutional development. He argued that domestic considerations, such as the extent of democracy, the quality of public institutions, and the inclusiveness and transparency of participatory processes, may well hold the clue to Mauritius's favorable economic performance compared with most African countries.

Tunisia and a Mediterranean strategy

Abdellatif Saddem, Tunisia's Minister of Economic Development, explained that Tunisia's own experience highlighted the benefits of sound macroeconomic policies and structural reforms, including closer integration with Europe, Africa, and the Arab world. He added that the association agreement with the European Union, concluded in 1995, is an important component of Tunisia's development strategy, though it now poses new challenges as Tunisia has to adjust to the next stage of trade liberalization and to the European Union's increasing openness to other trading partners. Although interregional cooperation is essential, Saddem stressed that it cannot be a substitute for continued domestic reform efforts.

Paul Chabrier, Director of the IMF's Middle Eastern Department, said Tunisia provided a good example of a "Mediterranean strategy in the context of globalization." But, commenting on the North African region as a whole, he said that, to be successful in boosting private investment and growth, such a strategy should be based on three pillars: liberalizing domestic and foreign trade, as well as the services sectors; conclud-

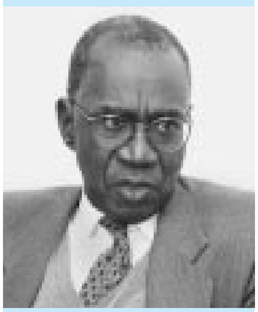

Evangelos A. Calamitsis


Robert L. Sharer


Arvind Subramanian


Paul Chabrier

G.E. Gondwe



Mamoudou Touré

Alexandre Barro Chambrier

ing bilateral association agreements with the European Union as a first step toward multilateral trade liberalization; and coupling association agreements with cooperation arrangements among North African countries.

IMF support of regional integration

Turning to the role of the international community, G.E. Gondwe, Director of the IMF's African Department, emphasized that the IMF was making every effort to help Africa better position itself to take advantage of the benefits of globalization. An important goal is the promotion of efficient regional integration, which featured prominently in the discussions of the Managing Director of the IMF and the President of the World Bank with African heads of state during their joint visit to Africa in February 2001. Gondwe said that the IMF was supporting regional integration by encouraging strengthened national economic stability and performance, increasing the emphasis on regional issues in IMF-supported programs, intensifying regional surveillance efforts with a view to enhancing regional policy coordination and institutional harmonization, and providing technical assistance. The IMF also intends to help promote investment by facilitating the establishment of regional investment councils.

Strengthening financial architecture

On a much broader scale, the IMF and its members have been taking steps to strengthen the international financial architecture, with a view to avoiding or reducing the risks of major disturbances and crises in the world economy. Saleh M. Nsouli and Françoise Le Gall, of the IMF Institute, noted that reform of the international financial architecture was the linchpin for spreading the benefits of globalization more widely. They reviewed progress made on the major building blocks of the new architecture, namely, transparency and accountability; international standards and codes; the strengthening of financial systems; capital account issues; sustainable exchange rate regimes; the detection and monitoring of external vulnerabilities; private sector involvement in forestalling and resolving crises; and IMF facilities and initiatives, including the enhanced Heavily Indebted Poor Countries (HIPC) Initiative and the Poverty Reduction and Growth Facility. They stressed that the new architecture could help African countries take advantage of the opportunities provided by globalization while minimizing the risks, thus fostering an environment conducive to increased investment and growth. African countries have already made some progress on various elements of the new architecture, but the work agenda remains largely unfinished.

Summing up

In a roundtable discussion chaired by Mamoudou Touré, former Minister of Economy and Finance of Senegal and former Director of the IMF's African Department, speakers exchanged views on the challenges of globalization and the policies and initiatives required to extend its benefits in Africa. There was a consensus that, more than ever before, Africans were keenly aware of the need for strong programs to foster growth and reduce poverty, based on an open, transparent, and participatory approach that ensures national ownership of the requisite policies and measures.

Alexandre Barro Chambrier, IMF Executive Director, summed up the proceedings by emphasizing that sound macroeconomic policies and structural and institutional reforms, coupled with good governance in all its aspects, were required for African countries to successfully reap the benefits of globalization, accelerate growth, and reduce poverty. But, Barro Chambrier added, Africa also needs peace and security. Thus, urgent steps must be taken to prevent conflicts and resolve disputes promptly.

Finally, Barro Chambrier noted that, to be successful, the reform efforts of African countries should be supported more strongly by industrial countries and multilateral institutions. The international community could make a vital contribution to Africa's welfare by maintaining steady noninflationary growth in the world economy and strengthening the international financial architecture; actively supporting efforts to restore peace and security in affected countries; giving poor countries free access to industrial country markets, especially for agricultural products; providing deeper and faster debt relief to all eligible countries under the enhanced HIPC Initiative; and increasing official development assistance. ■

Evangelos A. Calamitsis
Former Director, IMF African Department

Selected IMF rates

Week beginning	SDR interest rate	Rate of remuneration	Rate of charge
May 7	3.72	3.72	4.37
May 14	3.65	3.65	4.29

The SDR interest rate and the rate of remuneration are equal to a weighted average of interest rates on specified short-term domestic obligations in the money markets of the five countries whose currencies constitute the SDR valuation basket. The rate of remuneration is the rate of return on members' remunerated reserve tranche positions. The rate of charge, a proportion 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/cgi-shl/bur.pl?2001).

General information on IMF finances, including rates, may be accessed at www.imf.org/external/fin.htm.

Data: IMF Treasurer's Department

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Study examines record of program projections: how clear is the crystal ball?

Forecasts attract a lot of attention, particularly when they go wrong. The IMF's forecasting record has received its share of scrutiny, much of it devoted to forecasts published in the World Economic Outlook. *A new IMF Working Paper, coauthored by Steven Phillips, Senior Economist in the IMF's Western Hemisphere Department, and Alberto Musso, Researcher at the European University Institute (based on work undertaken when both were in the IMF's Policy Development and Review Department), looks instead at the track record of projections made as part of IMF-supported programs. Phillips speaks with Prakash Loungani about their findings.*

LOUNGANI: How did you get interested in seeing whether IMF projections were any good?

PHILLIPS: Around the time of the Asian crisis, there was much comment on the gap between original projections for the programs there and what came to pass. Alberto and I wanted to see what the track record was for recent program projections in general. We studied projections in some 70 IMF-supported programs—both Stand-By and Extended Arrangements.

LOUNGANI: When you look at a forecasting record, what makes you say, "that's a good record"?

PHILLIPS: There are several dimensions to the question, gauged by a standard set of tests. One test looks for a pattern of bias—do the forecasts tend to lean in one direction or the other; are they too optimistic or pessimistic in general? Another test concerns efficiency. If a review of past forecasting shows that errors were not just random but could have been predicted, that suggests it's possible to do better. Those forecasts are not efficient. And the most obvious test, of course, is accuracy: how close was the projection to the outcome, in comparison to alternative forecasts?

We applied these standard forecast evaluation techniques to projections associated with IMF-supported programs, though we recognize that program projections may not be intended to be pure forecasts. A pure forecast would aim, to put it a bit technically, at the unconditional mean of all possible outcomes. But program projections may be the outcome of negotiations with policymakers in the program country, and they may be conditional on assumptions about the policies pursued during the program. Our paper discusses other problems in treating program projections as forecasts—the bottom line is a call for caution in interpreting our findings.

LOUNGANI: Which variables did you use?

PHILLIPS: We went with a handful of variables central to any program: growth, inflation, and three different balance of payments concepts. These influence the projections for many other variables in the program. Projections of tax revenues, for example, feed off the nominal income forecasts—the growth and inflation forecasts.

Phillips: "We recognize that program projections may not be intended to be pure forecasts."

LOUNGANI: How did we do? A Heritage Foundation study claimed our growth forecasts for the *World Economic Outlook* tended to be too optimistic.

PHILLIPS: Well, we didn't find any such bias in the program projections. There wasn't a tendency to be too optimistic or too pessimistic. And we weren't able to predict projection errors; the projections seemed efficient. The growth projections also passed our statistical tests of accuracy.

LOUNGANI: That's surprising; I would have expected a bit of optimism in our growth projections.

PHILLIPS: That seems to be a common perception; maybe more attention is given to cases where growth falls short. We did find optimism in growth forecasts for "big" programs—that is, programs for larger countries or programs in which the IMF money involved was atypically large. These also tended to be programs in emerging markets, countries that had access to foreign private capital. Perhaps, in these cases, the immediate cause of the crisis tended to be a capital account problem.

LOUNGANI: In these countries, was growth dependent on whether capital stayed in? Was the program then predicated on confidence being restored?

PHILLIPS: Our study doesn't get into why some projections go wrong, but, as you suggested, in capital account crises two quite different outcomes may both be plausible. Just splitting the difference might not make sense; you have to pick one scenario or the other. And in some cases, you end up making the wrong choice.

LOUNGANI: Let's move on to inflation.

PHILLIPS: Here, the news wasn't as good: inflation outcomes exceeded projections. Inflation may have fallen, but programs tended to be optimistic about how quickly this would happen. This kind of result has been published before, though maybe our tests were a bit more rigorous. But here again, it proved important to look at subsets of our sample. We found the bias was coming from projections made for countries with unusually high inflation before the program started. We couldn't find significant bias in other programs.

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With one exception, we found that program projections were good at predicting which way things would move.

—Phillips

LOUNGANI: The IMF must have done well on external sector projections.

PHILLIPS: Well, for both the current and capital accounts of the balance of payments, we didn't find any bias. But accuracy was weak. These balances may be fundamentally difficult to predict. I should mention that we also looked at the directional accuracy of IMF projections. With one exception, we found that program projections were good at predicting which way things would move. The one exception was capital account projections.

LOUNGANI: Is this because, as we discussed earlier, in capital account crises two quite different outcomes may be plausible, and the scenario you pick may be the wrong one?

PHILLIPS: It's possible. By the way, in practice, program projections are revised or updated quite often, so switching scenarios, if necessary, is always possible. But our study only looked at initial projections—that is, the projections made when the programs were first approved by the IMF's Executive Board.

LOUNGANI: Are you worried critics will seize upon these results and say, "there goes the IMF again, making errors"?

PHILLIPS: We found just what a person would expect—a mixed bag of results—some favorable, some pointing to areas for improvement. If people want to focus only on the latter, they will. And they won't need our results, since the kinds of projections we studied are routinely made public. What would be constructive is if people intrigued by our findings try to build on them and test among competing explanations of why we got the results we did. Really, a useful interpretation of our results requires that.

LOUNGANI: A last word?

PHILLIPS: In the end, what you really want to know is how well IMF-supported programs work. In other words, how do program outcomes compare with what would have happened in the absence of a program or with the implementation of a different program? Of course, we haven't answered that. Our study just compares program outcomes with a set of numbers called projections. Still, I hope that some of the stylized facts we've found may ultimately be useful, at least in providing clues that can be used to fine-tune program design. ■

Copies of IMF Working Paper 01/45, *Comparing Projections and Outcomes of IMF-Supported Programs*, by Alberto Musso and Steven Phillips, are available for $10.00 from IMF Publication Services (see page 180 for ordering details). Working Papers are also posted on the IMF's website (www.imf.org).

Available on the web (www.imf.org)

Press Releases

01/22: First Deputy Managing Director Stanley Fischer to Leave IMF Later in 2001, May 8 (see page 167)

01/23: Turkey: Augmentation of Stand-By Credit to $19 Billion (see page 165)

01/24: Chad: Second Review Under PRGF, May 16

News Briefs

01/42: IMF Publishes Quarterly *Emerging Market Financing* Report, May 10

01/43: Mauritania: $8 Million under PRGF, May 10

Public Information Notices (PINs)

01/41: IMF Executive Board Discusses Money Laundering, April 29

01/42: Togo, May 3

01/43: IMF Executive Board Discusses Challenge of Maintaining Long-Term External Debt Sustainability of HIPCs, May 4

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Speeches

IMF First Deputy Managing Director Stanley Fischer, "Priorities for the IMF," Annual Meeting of the Bretton Woods Committee, Washington, April 27 (see page 176)

IMF Managing Director Horst Köhler, "Promoting Stability and Prosperity in a Globalized World," Council of the Americas, Washington, May 7 (see page 165)

Transcripts

Panel Discussion on Macroeconomic Policies and Poverty Reduction, May 7* (see *IMF Survey,* May 7, page 158)

Press Briefing, IMF First Deputy Managing Director Stanley Fischer, May 8 (see page 167)

Press Briefing, Thomas Dawson, IMF External Relations Department Director, May 10*

Poverty Reduction Strategy Papers

Armenia (interim), May 15

Letters of Intent and Memorandums of Economic and Financial Policies*

Guinea, May 3

Mauritania, May 10

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