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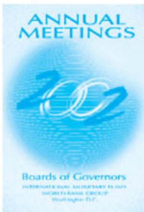
In this issue

273 Annual Meetings preview
273 Trade and finance linkages
277 *Global Financial Stability Report*
278 *IMF Annual Report*
279 Köhler on Japan
282 Globalization in historical perspective
284 Brazil loan approved
286 WAEMU's fiscal policy coordination
and...
276 Selected IMF rates
279 Use of IMF credit
280 IMF arrangements
281 New on the web
285 Recent publications

Annual Meetings 2002

Top officials to gather amid worries about global recovery, financial crises

The world's finance ministers and central bank governors will gather in Washington on September 29 for the Annual Meetings of the Governors of the IMF and the World Bank, against a backdrop of increased concerns about the strength and durability of the global economic recovery. On September 28, the International Monetary and Financial Committee (IMFC), the IMF's principal advisory Committee of Governors, and the Development Committee, a joint committee of IMF and World Bank Governors, will meet. The Annual Meetings have been shortened, owing to U.S. security concerns.



The IMFC, which will be chaired by Gordon Brown, the U.K. Chancellor of the Exchequer, is expected to discuss the global economic situation and the policies needed to address current risks and vulnerabilities and to strengthen global growth. IMF Managing Director Horst Köhler will make introductory remarks, most likely on the economic policy challenges faced by the IMF's membership and progress in the IMF's efforts to strengthen the international financial system and increase the effectiveness of the IMF's work—drawing on a report to the IMFC. (Please turn to the following page)

World Economic Outlook background chapters

Trade and finance links warrant closer attention

Kenneth Rogoff: "Globalization is not only a source of growth; it is also a natural outcome of it."

The linkages between trade and finance bear a closer look, explains Kenneth Rogoff, the IMF's Economic Counsellor and Director of its Research Department. He reports here on the findings of Chapters II and III of the IMF's World Economic Outlook, September 2002, *which take up several pressing issues, notably the risks posed by abrupt reversals of capital flows when there are sizable current account imbalances, the high global costs of continued industrial country protection of agricultural sectors, corporate balance sheet issues in emerging markets, and the symbiotic relationship between trade and financial integration. Chapter I of the* World Economic Outlook, *including its economic projections, will be released on September 25.*

Timeliness is not the only reason for the IMF's *World Economic Outlook* to take up the relationship between trade and finance. While international trade and finance have individually received a lot of analytical attention, the linkages between the two key dimensions of international economic integration have often been ignored. The *World Economic Outlook, September 2002,* sees these linkages as critical—a viewpoint that has recently come to the fore of thinking on international financial policy. (Please turn to the following page)

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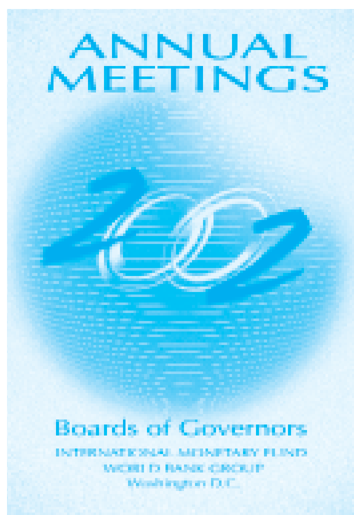

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IMF Annual Meetings

(Continued from front page, top)

The committee will also receive reports on the IMF's role in low-income countries, its efforts to combat money laundering and the financing of terrorism, the Twelfth General Review of IMF quotas, and progress with efforts to streamline conditionality in IMF programs to enhance country ownership. It will also hear from the recently created Independent Evaluation Office—which is expected soon to release its first study, on prolonged borrowings by IMF member countries. A press conference by Brown and Köhler will follow the IMFC meeting.

Immediately afterward, the Development Committee, chaired by Trevor Manuel, South Africa's Finance Minister, will convene. It is expected to focus on progress toward achieving the Millennium Development Goals—including halving world poverty by 2015—and on implementing the IMF–World Bank Heavily Indebted Poor Countries Initiative, aimed at reducing the debt burdens of the poorest countries, most of which are in Africa. It will also receive joint IMF–World Bank progress reports on poverty reduction strategy papers and efforts to combat money laundering and terrorist financing.

A number of other groups will gather ahead of the Annual Meetings, including the ministers of the Group of 24 developing countries on September 27, followed by the ministers and central bank governors of the Group of 10 industrial countries. On September 29, E. Gerald Corrigan—Managing Director of the Goldman Sachs Group, Inc., and former president of the Federal Reserve Bank of New York—will deliver the Per Jacobsson Foundation lecture, "The Boom-Bust High-Tech Cycle: Lessons Learned." ■

World Economic Outlook special focus

(Continued from front page, bottom)

Sustainable current external imbalances?

Much of the recent concern about exchange rate misalignments has focused on the U.S. current account deficit, which has widened to about 4 percent of GDP. Given that one country's deficit is the rest of the world's surplus, however, it is best to look at this issue from a broader multilateral perspective. There is now a gap of some 2½ percent of global GDP between the current account surpluses of continental Europe and east Asia (dominated by the euro area and Japan, respectively) and the deficit countries, dominated by the United States. Indeed, relative to the size of trade flows, current account imbalances have risen to levels virtually unseen before in industrial countries in the postwar era.

This problem is not specific to deficit countries or to surplus countries; rather, it is a problem of the system as a whole. The first essay in Chapter II—"How Worrisome Are External Imbalances?"—assesses the risks that the capital flows supporting these imbalances will unwind quickly, thus resulting in larger, and potentially disruptive, short-term exchange rate movements than would occur if the financial imbalances were to unwind slowly.

Although there is no easy prescription for mitigating these risks, these concerns strengthen the case for policymakers in deficit countries to pursue medium-term fiscal consolidation—the evidence shows that this reduces the likelihood of a disorderly outcome—and for policymakers in surplus countries to press ahead rapidly with structural reforms to make their economies more flexible and to boost growth. Expanding global trade would also help because the more open economies are to trade, the less exchange rate adjustment is required to achieve a given current account reversal.

Industrial countries' agricultural support amounts to over 30 percent of their agricultural output.
—*World Economic Outlook*

Costs of agricultural protection

Markets for basic agricultural commodities such as grain are often thought of as textbook examples of highly organized competitive markets in which prices respond rapidly to divergences between demand and supply. So it is something of a paradox that there are so many countries in which the agricultural sector is among the most heavily subsidized and protected. In "How Do Industrial Country Agricultural Policies Affect Developing Countries?" the second essay in Chapter II notes that industrial countries' agricultural support amounts to over 30 percent of their agricultural output.

Quantitatively, the largest burden of these subsidies falls on consumers and taxpayers in industrial countries, but, unfortunately, the effects also fall heavily on the rest of the world, including many poor countries, notably in sub-Saharan Africa. These costs are particularly large for certain commodities such as cotton. Industrial countries should be in the vanguard of multilateral efforts to get rid of farm subsidies given the large resources at their disposal and the small size of their farm sectors. The welfare gains would be sub-

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stantial (see chart, this page), and such an initiative would spur similar reforms in developing countries, which would further increase welfare gains. The impetus for similar reforms in developing countries is of particular importance, because the adverse effects of developing countries' own trade restrictions are significantly larger than the costs imposed by industrial country protection—not just on agriculture but also on manufactures and services.

Emerging markets' corporate performance

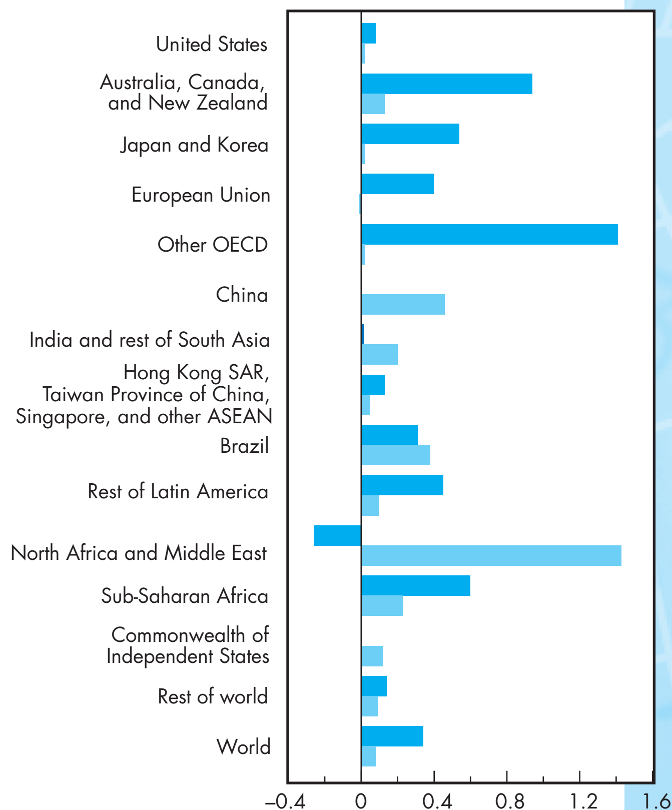
The Asian crisis of 1997–98 and successive crises in Latin America have underlined the role that healthy corporate and bank balance sheets can play in maintaining financial stability. The third essay in Chapter II, "Capital Structure and Corporate Performance Across Emerging Markets," looks at trends in corporate health and financial vulnerabilities across 18 emerging market countries, focusing particularly on differences between east Asian firms and their counterparts in the emerging market economies of Europe and Latin America.

Two results from this study are particularly noteworthy. First, policies that promote openness to foreign investors have a positive effect in helping corporations reduce their leverage (debt-to-equity ratios) and extend the maturity of their debts. This is not to deny the heightened risks of exchange rate mismatches, but, in terms of debt maturity and composition, openness helps rather than hurts. Second, leverage also seems to have much to do with the level of domestic financial development. In particular, corporations in countries at intermediate levels of financial development often have particularly high leverage ratios compared with countries that have more primitive or more advanced financial systems, in part because their financial systems tend to be based primarily on bank lending and other debt instruments.

The essay suggests that a higher level of economic development may help explain why east Asian firms still tend to have higher leverage ratios than their counterparts in the emerging market economies of Europe and Latin America, even after the Asian debt crisis of the 1990s. (Another likely factor is the increased ability of corporates to borrow in countries with more stable macroeconomic policy histories.) Past a certain point, however, as a country develops and its financial system matures, equity markets often become more important, leading to lower leverage ratios. If east Asian countries are indeed on the cusp, where further development begins to lead to lower leverage ratios, then this differential may abate in the coming decade.

Agricultural liberalization improves welfare

(percent of GDP)



Data: IMF, *World Economic Outlook*, September 2002

Trade and financial integration

Globalization is one of the major forces affecting the world. The relationship between its two main facets—trade integration and financial market integration—is the focus of the September *World Economic Outlook*'s Chapter III. Historically, international trade and finance have generally moved hand in hand (see chart, page 276). Empirically, the two reinforce each other, with greater financial integration tending to increase trade, and more trade requiring larger international financing.

What Chapter III finds is that the benefits from opening up to the rest of the world are greatest in terms of reduced macroeconomic volatility and fewer financial crises when progress is made in opening to both trade and finance. Theoretically, there is also a fairly clear link. It is now well known that a fall in the costs of trade can significantly expand financial market integration measured by the level of risk-sharing across countries. Indeed, one can potentially explain much of the differences in the level of capital market integration across countries by trade frictions,

The benefits from opening up to the rest of the world are greatest in terms of reduced macroeconomic volatility and fewer financial crises when progress is made on opening to both trade and finance.
—*World Economic Outlook*

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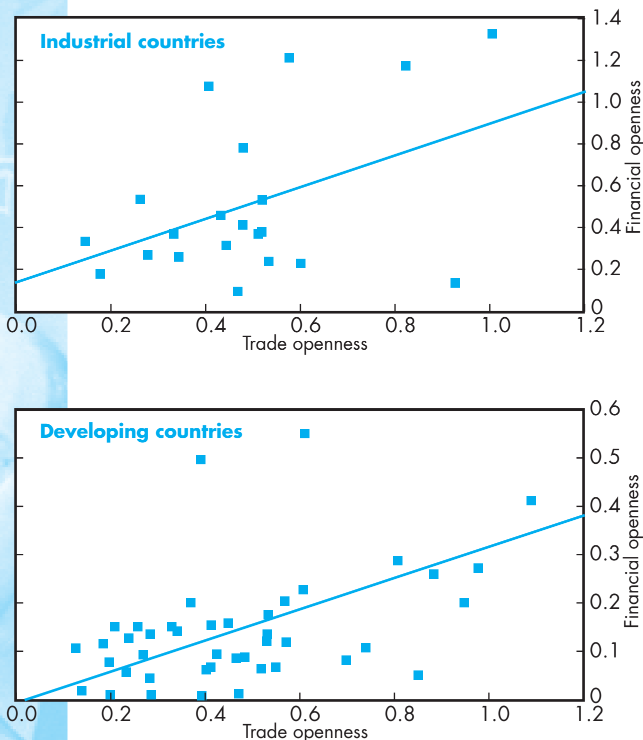
broadly defined to include not only transport and tariffs but also other factors, such as differences in language and legal systems (also see, "The Six Major Puzzles in International Macroeconomics: Is There a Common Cause?" by Maurice Obstfeld and Kenneth Rogoff, *NBER Macroeconomics Annual 2000*).

Trade and financial openness are complementary



Data: IMF, *World Economic Outlook*, September 2002
Note: Trade openness is defined as the sum of imports and exports as a ratio to GDP, averaged over 1975–99. Financial openness is defined as the average gross stock of accumulated foreign direct investment and portfolio flows as a ratio to GDP, averaged over 1975–99.

While a steady fall in trade costs has certainly been the driving force for global integration throughout modern history, the roots of the change have differed somewhat over time. During the last great era of globalization, 1870–1914, integration was driven mainly by changes in technology. During the modern post–World War II era, however, policy has been at least as important. While financial and trade integration have generally moved in broad correspondence, there have been cases where policy-driven liberalization in financial markets has leaped ahead, and the supporting changes needed to achieve trade integration never materialized. This can lead to problems, including financial crises, as Chapter II of the *World Economic Outlook, April 2002,* examined, and as the current study takes up again.

Given the importance of opening up to finance and trade, Chapter III also contains a detailed investigation of why some regions seem to trade so much more than others. Much of the analysis is based on the so-called gravity model of trade—a model that controls for factors such as country size, distance from trading partners, and policy restrictiveness. Overall, the results suggest that while trade policy restrictiveness is quite important in explaining the lower trading levels of developing countries compared with their industrial country brethren, other factors, such as the level of economic development and inherited geography, turn out to be even more important. Low income per capita is central to explaining the relatively low level of "South-South" trade; as consumers in poor countries use a relatively narrow range of products, such countries will naturally trade less with each other, even relative to income.

Many countries also suffer from the problem of geographic isolation and, in some cases, being land-locked. Indeed, geography alone accounts for roughly 40 percent of the difference in trade levels across countries. Trade and balance of payments restrictions, in contrast, appear to account for between 10 and 20 percent of the shortfall in bilateral trade flows. We can conclude from this that, over the next century, we are likely to see increased globalization as a result of not only continued improvements in the global transportation and communications systems and active policy measures to reduce trade restrictions, but also simply further economic development. Globalization is not only a source of growth; it is also a natural outcome of it. ■

Copies of the *World Economic Outlook, September 2002,* are available for $49.00 (academic rate, $46.00) each. For ordering information, see page 285.

Selected IMF rates

Week beginning	SDR interest rate	Rate of remuneration	Rate of charge
September 2	2.25	2.25	2.88
September 9	2.22	2.22	2.84

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?2002).

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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Global Financial Stability Report

Financial system is resilient, but more can be done

During the second quarter of 2002 and into August, a sharp erosion of investor confidence, increasing risk aversion, and growing concerns about the strength and durability of the economic recovery and the pace and quality of corporate earnings had repercussions in all the major equity, credit, and foreign exchange markets. Still, the global financial system displayed resilience, according to the IMF's latest *Global Financial Stability Report*, which concludes that "the most likely outcome is that financial resilience and stability will be maintained."

This resilience reflects three factors:

- First, the global economy appears to be improving, albeit at a slower-than-expected pace.
- Second, equity market corrections reduced some of the unrealistically high equity valuations that were once a source of risk (see chart). For example, as of early August, valuations in U.S. and European equity markets had moved closer to long-term averages from high levels.
- Third, risk has become more widely distributed in recent years, with households playing a bigger role in bearing financial market risks.

Potential risks

The report, produced by the IMF's International Capital Markets Department, is intended to highlight potential risks and vulnerabilities in the international financial system. For the second quarter of 2002, it identifies three potential sources of risk:

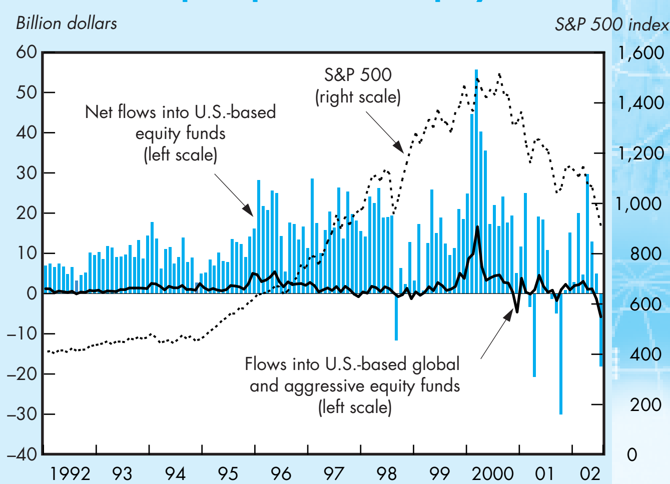
- A generalized reduction in risk appetite on the part of global investors could result in downward pressure on the prices of financial assets. In the extreme, where investors withdraw en masse from financial and economic risk-taking, further selling of riskier assets could depress prices even more and adversely affect some financial institutions.
- Accumulated losses could impair key financial institutions, or a number of smaller ones, significantly reducing their resilience. This is a particular concern in Europe, where insurance and reinsurance companies have fared poorly, and where bank stocks have declined sharply.
- Net capital flows into the United States could slow rapidly, potentially putting downward pressure on the U.S. dollar and U.S. asset prices. The effect could be muted to the extent that investors might not see more desirable places to invest, at least until there are clearer signs of higher growth elsewhere.

In light of these risks, policymakers could take specific steps to promote the stability of the international financial system.

Promoting stability

In all countries, the report argues, those in charge of financial stability should increase their vigilance, notably with regard to market surveillance, prudential supervision, and financial regulation, keeping careful watch for signs of further weaknesses in key institutions and markets. In particular, the report suggests that oversight and corporate governance that ensure that risks in unfamiliar noncore businesses are well managed might help to bolster financial soundness. It also notes that governments can complement these actions by participating in the IMF's Report on Observance of Standards and Codes for corporate governance, accounting and auditing, and by subscribing to the OECD's principles of corporate governance.

Doubts have prompted recent equity sell-offs



Data: IMF, *Global Financial Stability Report*, September 2002

The report suggests that the advanced economies adopt macroeconomic policies that support economic activity and foster an orderly reduction in global imbalances, such as a gradual unwinding of the current account deficit in the United States. Additional efforts to improve corporate governance, accounting, disclosure, and transparency will most likely be needed to strengthen the self-correcting forces of the market. In particular, the report urges policymakers to provide greater incentives for firms to adopt prudent accounting and reporting practices.

Emerging market countries would benefit from the consistent implementation of strong policies aimed at bolstering macroeconomic and financial stability. These policies would not only promote growth but would also provide investors with a means to better discriminate between countries as investment destinations. In countries where domestic saving rates are low and the need for external financing is high, policymakers should encourage greater domestic saving. In addition, authorities should encourage sound and diversified financial systems by promoting the development of local bond markets to supplement external market financing. ■

Copies of the *Global Financial Stability Report* are available from IMF Publication Services for $42.00 (academic rate: $35.00) each. See page 285 for ordering information.

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IMF Annual Report 2002

IMF lending rises sharply

The IMF's regular and concessional lending increased strongly in the financial year ended April 30 as the slowdown in the world economy contributed to a worsening of the balance of payments difficulties of several members. According to the latest IMF Annual Report, *published this month, new commitments under the IMF's regular loan facilities—Stand-By Arrangements and the Extended Fund Facility (EFF)—roughly tripled to SDR 39.4 billion (almost $50 billion) in FY2002, from SDR 13.1 billion (almost $17 billion) in FY2001.*

The largest new commitments were under Stand-By Arrangements with Brazil and Turkey of SDR 12.1 billion ($15.3 billion) and SDR 12.8 billion ($16.2 billion), respectively. Of the commitment to Brazil, SDR 10 billion ($12.7 billion) was provided under the Supplemental Reserve Facility (SRF), which assists members experiencing a sudden and disruptive loss of market access. Since the end of the period covered by the *Annual Report*, the IMF has approved a new request by Brazil for a 15-month Stand-By credit of SDR 22.8 billion (about $30 billion)—the largest IMF credit to date in SDR terms—to support the country's economic and financial program through December 2003.

A growing volume of IMF financing commitments, the report points out, were treated as precautionary, with borrowers indicating that they did not intend to draw on the funds committed. Actual drawings were made in only 16 of the 34 Stand-By and Extended Arrangements in place during the year. As of the end of April 2002, undrawn balances amounted to SDR 26.9 billion ($34 billion). The IMF's net uncommitted usable resources amounted to SDR 64.7 billion ($82 billion). The liquidity ratio (the ratio of net uncommitted usable resources to liquid liabilities) was 117 percent, down from the 168 percent reached a year previously, but more than three and a half times the low point reached before a 1999 increase in IMF quotas.

Poverty lending rises

The IMF's concessional lending for poverty reduction also rose. The Executive Board approved nine new Poverty Reduction and Growth Facility (PRGF) Arrangements totaling SDR 1.8 billion ($2.3 billion) during the period, with total disbursements amounting to SDR 1.0 billion ($1.3 billion), compared with SDR 0.6 billion ($0.8 billion) in FY2001. By end-April 2002, 27 countries—23 in sub-Saharan Africa—had also received commitments of some $40 billion in debt relief under the Heavily Indebted Poor Countries Initiative.

New challenges

During the year reviewed, the IMF faced important new challenges in an unusually unsettled world environment. These placed increased demands on the institution in two of its main areas of responsibility: preserving world economic and financial stability and assisting in the global war on poverty. After a period of strong expansion, the global economy experienced a widespread slowdown during the 2001 calendar year. Contributing to this were further downward adjustments in equity prices, together with the rise in energy prices and the tightening of monetary policy in industrial countries that had occurred in 2000.

An already weak international economy was further affected by the September 11, 2001, terrorist attacks in the United States, which had a substantial—albeit largely temporary—impact on economic conditions. By early 2002, however, thanks in large part to actions taken by key central banks to lower interest rates, there were encouraging signs that growth was recovering. The report noted, however, that serious concerns remained in a number of countries.

The IMF's work to combat money laundering acquired increased importance after the September 11 attacks, when it was extended to include the financing of terrorism.

IMF work program

In the face of the prevailing uncertainties, the report emphasizes that the IMF continued to work on the reform of the international monetary system and to sharpen its focus on the institution's core responsibilities, especially helping to prevent financial crises among its members. In the area of crisis resolution, the IMF adopted in spring 2002 a four-point work program designed to increase its capacity to assess a country's debt sustainability, clarify its policy on access to IMF resources, strengthen the tools available for securing private sector involvement in resolving financial crises, and examine a more orderly and transparent legal framework for sovereign debt restructurings. ■

Jeremy Clift
IMF External Relations Department

The full text of the IMF's Annual Report, September 2002 is available on the IMF's website (www.imf.org). Copies are also available, free of charge, from IMF Publication Services. See page 285 for ordering information.

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Fiftieth anniversary in Bretton Woods institutions

Köhler exhorts Japan to meet its growth potential

On September 10, IMF Managing Director Horst Köhler addressed a symposium in Tokyo commemorating the fiftieth anniversary of Japan's membership in the IMF and the World Bank. Following are edited excerpts from his remarks. The full text is available on the IMF's website (www.imf.org).

Japan's economic performance over the past 50 years has been a remarkable tribute to the energy and creativity of its people. When Japan joined the IMF, it was still recovering from the devastation of World War II. In subsequent decades, it transformed itself into an industrial and technological powerhouse. Now, Japan is one of the wealthiest nations in the world and the second largest shareholder in both the IMF and the World Bank. Japan's accomplishments during these 50 years should be a source of pride and of confidence that this country has the capacity to respond to the challenges of the future.

These achievements have naturally enabled Japan to play an increasingly important part in world economic affairs and, particularly, in the IMF. Japan has shown leadership in shaping the IMF's policies, especially on relations with low-income countries, crisis management, and measures to strengthen the international financial architecture. The IMF is fortunate to have Shigemitsu Sugisaki, a former senior official of the Ministry of Finance, as a Deputy Managing Director. Moreover, Japan is the largest provider of resources for lending by the IMF's Poverty Reduction and Growth Facility and for technical assistance and training through its Administered Account with the IMF. These resources represent a wise investment for Japan to help build a more peaceful and prosperous world. Japan has a clear interest in open markets, free trade, and international financial stability—objectives that lie at the heart of the IMF's mandate.

A modest recovery?

There are welcome signs that Japan may at last be emerging from recession. But the consensus among forecasters is that the recovery will be modest, heavily dependent on external demand, and, in particular, linked to economic developments in the United States. Rapid U.S. economic growth over the past decade has served the global economy well, but it has also contributed to a rising current account deficit and concerns about the possibility of sharp and destabilizing movements in capital flows and exchange rates. Much of the solution must lie in policies to increase national savings in the United States. But it is also crucial for Europe and Japan to be more open to structural change in their own economies, so that they can do a better job of unlocking self-sustained growth. Restoring a growth performance that corresponds to Japan's demonstrated potential demands nothing less than an integrated policy approach, based on decisive restructuring of the banking and corporate sectors and macroeconomic policies designed to bring an end to deflation. Prime Minister Junichiro Koizumi deserves strong support for his commitment to carry through the structural reforms needed to restore confidence in the Japanese economy and foster sustained growth and job creation.

Smoothing capital flows

In recent months, the Enron collapse and, even more, the WorldCom scandal have also made it clearer than ever that we must devote as much attention to risks and vulnerabilities arising in the advanced countries as we do to problems in emerging markets and developing countries. The broad discussion and the legislative response in the areas of accounting and corporate governance that have gotten under way in the United States are welcome.

But I also think that the international community as a whole should take up these issues as part of a broader effort to reduce excessive volatility in international capital flows. Here, I see a need for intensified collaboration among standard-setting bodies, the IMF and the World Bank, Asian regional institutions, and the Financial Stability Forum. I would encourage the responsible institutions to concentrate on refining accounting standards; on enhancing corporate disclo-

We must devote as much attention to risks and vulnerabilities arising in the advanced countries as we do to problems in emerging markets and developing countries.
—Horst Köhler

Members' use of IMF credit
(million SDRs)

	During August 2002	January–August 2002	January–August 2001
General Resources Account	**1,566.20**	**20,225.48**	**11,880.57**
Stand-By	1,516.20	19,238.87	11,769.45
SRF	0.00	6,762.62	5,164.08
EFF	50.00	986.61	111.12
CFF	0.00	0.00	0.00
PRGF	**15.78**	**1,026.30**	**448.28**
Total	**1,581.98**	**21,251.78**	**12,328.85**

SRF = Supplemental Reserve Facility
EFF = Extended Fund Facility
CFF = Compensatory Financing Facility
PRGF = Poverty Reduction and Growth Facility
Figures may not add to totals shown owing to rounding.

Data: IMF Treasurer's Department

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sure, including off-balance-sheet activities; and on better aligning management incentives with shareholder objectives, to reduce the potential for conflicts of interest.

At the same time, it will be important to resist the temptation to overregulate. The willingness of entrepreneurs to experiment and take risks is one of the essential characteristics that makes markets a force

Stand-By, EFF, and PRGF arrangements as of August 31

Member	Date of arrangement	Expiration date	Amount approved	Undrawn balance
			(million SDRs)	
Stand-By				
Argentina[1]	March 10, 2000	March 9, 2003	16,936.80	7,180.49
Bosnia and Herzegovina	August 2, 2002	November 1, 2003	67.60	48.00
Brazil[1]	September 14, 2001	December 13, 2002	12,144.40	759.02
Bulgaria	February 27, 2002	February 26, 2004	240.00	156.00
Dominica	August 28, 2002	August 27, 2003	3.28	3.28
Guatemala	April 1, 2002	March 31, 2003	84.00	84.00
Jordan	July 3, 2002	July 2, 2004	85.28	74.62
Latvia, Republic of	April 20, 2001	December 19, 2002	33.00	33.00
Lithuania, Republic of	August 30, 2001	March 29, 2003	86.52	86.52
Peru	February 1, 2002	February 29, 2004	255.00	255.00
Romania	October 31, 2001	April 29, 2003	300.00	248.00
Sri Lanka	April 20, 2001	September 19, 2002	200.00	48.32
Turkey	February 4, 2002	December 31, 2004	12,821.20	2,892.00
Uruguay[1]	April 1, 2002	March 31, 2004	2,128.30	1,016.60
Total			**45,385.38**	**12,884.86**
EFF				
Colombia	December 20, 1999	December 19, 2002	1,957.00	1,957.00
Indonesia	February 4, 2000	December 31, 2003	3,638.00	1,651.48
Ukraine	September 4, 1998	September 3, 2002	1,919.95	726.95
Yugoslavia, Federal Republic of	May 14, 2002	May 13, 2005	650.00	550.00
Total			**8,164.95**	**4,885.43**
PRGF				
Albania	June 21, 2002	June 20, 2005	28.00	24.00
Armenia, Republic of	May 23, 2001	May 22, 2004	69.00	59.00
Azerbaijan	July 6, 2001	July 5, 2004	80.45	64.35
Benin	July 17, 2000	March 31, 2004	27.00	8.08
Burkina Faso	September 10, 1999	December 9, 2002	39.12	5.58
Cambodia	October 22, 1999	February 28, 2003	58.50	8.36
Cameroon	December 21, 2000	December 20, 2003	111.42	63.66
Cape Verde	April 10, 2002	April 9, 2005	8.64	7.41
Chad	January 7, 2000	January 6, 2003	47.60	15.80
Congo, Democratic Republic of	June 12, 2002	June 11, 2005	580.00	160.00
Cote d'Ivoire	March 29, 2002	March 27, 2005	292.68	234.14
Djibouti	October 18, 1999	October 17, 2002	19.08	9.99
Ethiopia	March 22, 2001	March 21, 2004	100.28	41.72
Gambia, The	July 18, 2002	July 17, 2005	20.22	17.33
Georgia	January 12, 2001	January 11, 2004	108.00	58.50
Ghana	May 3, 1999	November 30, 2002	228.80	52.58
Guinea	May 2, 2001	May 1, 2004	64.26	38.56
Guinea-Bissau	December 15, 2000	December 14, 2003	14.20	9.12
Honduras	March 26, 1999	December 31, 2002	156.75	48.45
Kenya	August 4, 2000	August 3, 2003	190.00	156.40
Kyrgyz Republic	December 6, 2001	December 5, 2004	73.40	49.96
Lao People's Democratic Republic	April 25, 2001	April 24, 2004	31.70	22.64
Lesotho	March 9, 2001	March 8, 2004	24.50	14.00
Madagascar	March 1, 2001	February 29, 2004	79.43	56.74
Malawi	December 21, 2000	December 20, 2003	45.11	38.67
Mali	August 6, 1999	August 5, 2003	51.32	12.90
Mauritania	July 21, 1999	December 20, 2002	42.49	6.07
Moldova, Republic of	December 21, 2000	December 20, 2003	110.88	83.16
Mongolia	September 28, 2001	September 27, 2004	28.49	24.42
Mozambique	June 28, 1999	June 27, 2003	87.20	16.80
Niger	December 22, 2000	December 21, 2003	59.20	25.36
Pakistan	December 6, 2001	December 5, 2004	1,033.70	775.26
Rwanda	August 12, 2002	August 11, 2005	4.00	3.43
São Tomé & Príncipe	April 28, 2000	April 27, 2003	6.66	4.75
Sierra Leone	September 26, 2001	September 25, 2004	130.84	74.66
Tanzania	April 4, 2000	April 3, 2003	135.00	35.00
Vietnam	April 13, 2001	April 12, 2004	290.00	165.80
Zambia	March 25, 1999	March 28, 2003	278.90	124.20
Total			**4,756.81**	**2,616.85**
Grand total			**58,307.14**	**20,387.14**

[1]Includes amounts under Supplemental Reserve Facility.
EFF = Extended Fund Facility.
PRGF = Poverty Reduction and Growth Facility.
Figures may not add to totals owing to rounding.

Data: IMF Treasurer's Department

Members drawing on the IMF "purchase" other members' currencies or SDRs with an equivalent amount of their own currency.

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for greater prosperity, higher employment, and better standards of living. I trust that these will continue to be guiding principles for regulatory reform in Japan.

Asian countries have rightly embraced regional economic integration as a powerful way to take advantage of the benefits of globalization and enhance crisis prevention. I view intensified regional economic and financial integration not as a contradiction, but as an important complement to stronger global cooperation and governance. And, having spent much of my life involved in the process of European integration, and having seen how much it helped to enhance wealth and stability in Europe, I would strongly encourage Asian countries to continue along this path. The finalization of the expanded swap network among the ASEAN+3 countries was a welcome development, which I see as complementary to financial assistance from the IMF for members undertaking necessary economic reforms. And I can assure you that the IMF stands ready to assist in the implementation of the new swap network, as well as in the further development of regional economic surveillance, trade, and financial cooperation. ■

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Press Releases

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02:38: IMF Executive Board Approves $23 Million in Emergency Credit to Malawi, September 3

02/39: IMF Extends Argentina's SRF Repayment by One Year, September 5

02/40: IMF Approves $30.4 Billion Stand-By Credit for Brazil, September 6 (see page 284)

News Briefs

02/89: IMF Completes Third Review of Niger's PRGF Arrangement, Approves Modification and Waiver of Performance Criteria, and $11 Million Disbursement, August 26

02/90: IMF Completes Second Review of Lao P.D.R.'s PRGF-Supported Program and Approves in Principle $6 Million Credit, August 26

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Transcripts

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Press Briefing by Thomas C. Dawson, Director, External Relations Department, August 29

The IMF and Ukraine: What Really Happened, Lorenzo Figliuoli and Bogdan Lissovolik, IMF Resident Representatives in Ukraine, *Zerkalo Nedeli*, August 31

"Japan and the IMF: 50 Years of Economic Progress and International Leadership," Managing Director Horst Köhler, Symposium to Commemorate the Fiftieth Anniversary of Japan's Membership in the IMF and the World Bank, Tokyo, September 1 (see page 279)

Press Briefing by Thomas C. Dawson, Director, External Relations Department, September 12

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Globalization in historical perspective

Charting the future from the past

For three days in August, Rutgers University Professor Michael Bordo and a group of noted academics provided senior officials from 30 countries and a number of IMF staff with a historical context for the often contentious issue of globalization. Sponsored by the IMF Institute, "Globalization in Historical Perspective" reprised an earlier National Bureau of Economic Research conference. The seminar focused, in particular, on the forces unleashed in the nineteenth century and the ensuing backlash and looked for insights into today's policy debates.

Michael Bordo

"We all know," IMF First Deputy Managing Director Anne Krueger observed in her opening remarks, "that globalization is not a new phenomenon." While much of the current debate has been framed within developments since 1950, a "long view" can offer a fuller understanding of the forces that have shaped the modern world. If we fear that the recent violent political reaction to globalization might cause a political retreat from liberal policy, she said, "it would pay to look carefully at the twenty or so years before World War I." During that period, and under popular pressure, the United States passed immigration restrictions, and tariffs rose almost everywhere. "It would also pay," Krueger added, "to look carefully at the interwar years when the world moved sharply away from openness and toward self-sufficient autarky, with expanded trade protection everywhere, increased barriers to labor and capital mobility, and widespread monetary and financial dysfunction."

Ronald Findlay

Globalization's long history

If globalization is about intensifying integration, this breaking down of barriers has a long history. Where and how did it begin? That is still the subject of considerable debate. Some cite Marco Polo's travels as the first step in the globalization process, but Columbia University's Ronald Findlay argued at the seminar that the voyages of Christopher Columbus and Vasco da Gama, which broke the Venetian-Egyptian monopoly over trade with Asia, marked the true beginning. In the three centuries following Columbus's voyages, trade grew by about 1 percent a year—well above the average of 0.3 percent income growth.

Alan Taylor

Harvard University's Jeffrey Williamson, however, expressed the view at the seminar that the sixteenth through eighteenth centuries constituted a period of antiglobalization mercantilist policies and growing income inequality. Swelling populations raised the scarcity value of land, and the incomes of wealthy landowners, relative to the farm wage. The rising trade share in GDP consisted almost entirely of luxury goods that the rich—alone—could increasingly afford.

True globalization, Williamson suggested, began only during the nineteenth century, with the unleashing of the economic forces of trade, migration, and capital flows. Britain's nineteenth-century free-trade leadership was critical. In 1846, for example, the country effectively reduced its import tariff on grain from 70 percent to 20 percent and distributed income away from the British landed classes and toward the rest of the world. As the leading industrial power of the day, its rapid shift to a liberal trade regime had a powerful demonstration effect, especially in Europe.

Labor flows rose dramatically in the nineteenth century. Between 1870 and 1910, migration increased the U.S. labor force by one-fourth (and by far more in Canada, Australia, and Argentina) while reducing it throughout Western Europe, yielding labor force declines approaching one-half in Italy and Ireland. These enormous labor flows had a big impact on wages and income distribution.

At the same time, capital, too, became much more mobile. Alan Taylor of the University of California at Davis, in his presentation, traced the rise of international capital markets, with the Dutch providing the British with large-scale financing for military expenditures during the Napoleonic Wars. New York University Professor Richard Sylla noted that Dutch bankers also offered their services to the French—filling Napoleon's war chest by placing U.S. bonds, received in payment for the Louisiana Territories, with British investors.

Capital flows played a vital role in U.S. economic development—arguably the first successful emerging market. Sylla postulated that Alexander Hamilton's financial reforms, including the settlement at par of Revolutionary War debt, permitted a rapid expansion of the country's banking sector. Despite the slowness of trans-Atlantic communications, there was growing integration between New York and London markets as

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early as 1816, and, by 1850, foreign investors held around 40 percent of all U.S. bonds, many of which were actively quoted in European markets.

These developments, taken together, are now seen as a golden age of globalization. But the period between 1870 and World War I is also known as the golden age of the classical gold standard. Did gold afford greater stability than floating rates can in the present period? Michael Bordo contrasted the workings of the two systems and found that the same basic rules apply. Financial maturity and credible policies are more important for a country's stability than its exchange regime. Under the gold standard, countries with credibility could depart temporarily from their parity in response to shocks. Since 1973, financially developed countries have been able to make a credible commitment to a domestic nominal anchor and enjoy the flexibility of a floating exchange rate.

Of course, Bordo added, the dynamic is entirely different for less financially mature economies. Such countries, then and now, must borrow abroad in foreign currencies. They faced the same policy credibility problems under the gold standard as they do today, even while attempting to signal sound policies through adherence to gold. With foreign currency indebtedness, shocks in the earlier period could also lead to capital flight and financial distress. In this sense, the 1890s looked very much like the 1990s—a string of financial crises, followed by moves either to very hard pegs (including gold cover in excess of 100 percent) or to free floating. The long and the short of it, Bordo concluded, is that financial crises have been, and remain, an unfortunate but inevitable part of "growing up" for emerging markets.

Backlash against the golden age

The far-reaching changes that characterized the nineteenth century brought with them significant changes in income distribution that contributed to a political backlash. In particular, the era saw a marked convergence of wages among the globalized economies of the Atlantic community. Only 30 percent of that convergence was the result of trade. The dominant source was the massive migration that occurred between 1870 and 1913. This is true even though the wage convergence was tempered by large flows of capital into the high-wage and labor-scarce countries of the New World.

Income distribution also shifted markedly within countries. Landowners in land-scarce, labor-abundant Europe saw their returns diminish, and income distribution worsened in the countries of new settlement, where waves of unskilled workers provided fierce competition for more established workers. And these shifts provoked resistance. In the Old World, landowners successfully lobbied for higher agricultural tariffs during the last decades of the nineteenth century. In the United States, Canada, Australia, and Argentina, labor ultimately succeeded in closing the door to further immigration by the 1920s.

Did this backlash fan the flames of nationalism and contribute to the outbreak of World War I? Clearly, the Great Depression in the 1930s intensified the backlash, prompting countries, in a misguided attempt to protect themselves, to raise tariff barriers,

The IMF Institute seminar on globalization drew senior officials from 30 countries.

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restrict migration, and abandon the gold standard. A new book by historian Harold James argues that the Great Depression was caused by the backlash against nineteenth century–style globalization.

Lessons for the new century

Are similar economic forces contributing to the current backlash against globalization? Now, as before, there are winners and losers. Countries that do not open up to trade flows and capital movements fall behind; unskilled workers in advanced countries have seen a growing pay gap between themselves and the more highly skilled. In these circumstances, a political coalition of organized labor, protected industries, and new groups coalescing around such issues as the environment could derail the current progress of globalization.

Today, however, as Bordo noted in his summary of the seminar's discussions, the losses from trade may not be felt as keenly as they were in the nineteenth century. The growth of international trade is more widespread, and its benefits more widely shared. The institutional framework is different, too: there is more legal protection against unfair trade practices than before, and trade disputes can be resolved by the World Trade Organization or other bodies. In addition, countries have made important strides in assisting displaced workers through programs like unemployment insurance and targeted retraining.

International immigration remains an important issue, even if it is unlikely to return to nineteenth-century rates. New immigrants will now be entering technologically advanced societies and adding pressure to the already declining relative wages of low-skilled workers. The result, suggested Barry Chiswick of the University of Illinois at Chicago, may be greater convergence by skill level across the globe, while inequality rises within countries. He expected that pressure would rise in advanced economies to prevent illegal immigration, even as the declining costs of migration provide increased incentives to immigrate illegally. Chiswick predicted that aggressive enforcement of immigration laws would be politically unacceptable in liberal societies, while alternative policies would have limited effectiveness in stemming the tide of immigration.

A final but very important difference between the two eras is that most countries in recent years have learned to pursue stable macroeconomic policies, in sharp contrast to the very unstable environment that led to the shutdown of capital markets between the two World Wars. Central banks have come to understand their role as lenders of last resort, and the international financial architecture, of which the IMF is a part, now helps lessen the frequency and severity of financial crises.

Opportunity or tumult—where is globalization headed? Citing the lessons of history, Bordo, for one, was sanguine, concluding, "Other parts of the world are going to get rich." It is encouraging to think so. ■

Wayne Camard
IMF External Relations Department

IMF approves record $30.4 billion loan for Brazil

On September 6, the IMF Executive Board approved Brazil's request for a new 15-month, $30.4 billion Stand-By credit to support the country's economic and financial program through December 2003. This new loan is the largest ever for the organization.

The Board's decision will enable Brazil to draw up to $3 billion from the IMF immediately. A second drawing of up to $3 billion will be made available upon completion of the first review, which is expected to take place before end-2002. The new loan with Brazil replaces the previous 15-month, $15.6 billion stand-by credit, which was approved on September 14, 2001.

After the Executive Board discussion on Brazil, IMF Managing Director Horst Köhler said: "Brazil has implemented strong and consistent macroeconomic policies in recent years that have improved fundamentals. Increases in the public sector primary surplus and the strengthening of fiscal institutions, along with the successful transition to a floating exchange rate regime and inflation targeting, have laid the foundation for sustainable growth with price stability.

"Despite these achievements, the uncertain international economic environment and some concerns about the course of economic policies following the upcoming presidential elections have put substantial pressure on financial variables, including the exchange rate and interest rates, and economic growth has slowed in recent months. In addition, the depreciation of the exchange rate has led to an increase in the ratio of debt to GDP.

"The authorities have responded to these developments proactively, announcing in June an increased primary surplus target for 2002–2003, and have maintained a firm monetary policy to limit the inflationary impact of the weakening *real*. In addition, the authorities have developed a macroeconomic framework for the medium term that underpins the new IMF-supported program covering the period through December 2003."

For further details, please see the full text of IMF Press Release 02/40, September 6, which is available on the IMF's website (www.imf.org).

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Interview with Ousmane Doré and Paul Masson

West Africa's monetary union has had mixed success coordinating fiscal policies

Ousmane Doré

Paul Masson

After registering notable progress in reducing budget deficits and coordinating their fiscal policies during 1994–97, the eight member states of the West African Economic and Monetary Union (WAEMU) saw their fiscal policies diverge in 1998–2001. What prompted this turnabout? Ousmane Doré, a Senior Economist in the IMF's African Department, and Paul Masson, a recently retired Senior Advisor in the IMF's Research and African Departments and currently a visiting fellow at the Brookings Institution, discuss their Working Paper, Experience with Budgetary Convergence in the WAEMU, *with Jacqueline Irving, IMF African Department. They conclude that the deterioration after 1997 was due to weak commodity prices and economic cycle downturns, as well as to a relaxation of policy efforts.*

Irving: In terms of stringency, how do the fiscal convergence criteria for the 8 WAEMU members compare with those of the 12-member euro zone?

Doré: It is actually very difficult to compare the two zones in terms of stringency. WAEMU's budgetary convergence criteria are assessed through the concept of basic fiscal balance—defined as fiscal revenue minus expenditures and excluding both grants and foreign-financed investment. This fiscal balance has to be positive or nil. The European Union (EU) uses the concept of overall fiscal balance, and the criteria specify a budget deficit of no more than 3 percent of GDP.

Another difference is the coverage of fiscal accounts used. The EU's fiscal targets cover the general government, which includes social security and local government accounts, whereas the WAEMU fiscal criteria essentially look at central government finances. Both zones set a ceiling on the overall ratio of public debt to GDP, though in the WAEMU that ceiling is set at 70 percent as a norm, whereas the EU has a 60 percent target. One cannot really compare these targets, because a true measure of progress would also depend on the initial position from which a member country began its adjustment. Moreover, an assessment of WAEMU's fiscal performance would have to take into account that external debt levels have been, or will be, reduced under the Heavily Indebted Poor Countries Initiative for most countries. The euro-zone countries since 1999 have been implementing their budgetary policies within the framework of the Stability and Growth Pact, which requires members to be more ambitious in maintaining a balanced fiscal position over the medium term.

Irving: What happens if a WAEMU member breaches the agreed targets for fiscal convergence?

Doré: If a member country breaches the fiscal convergence criteria, the WAEMU Commission invites

What is WAEMU?

Eight countries—Benin, Burkina Faso, Côte d'Ivoire, Guinea-Bissau, Mali, Niger, Senegal, and Togo—form the West African Economic and Monetary Union (WAEMU).

WAEMU, together with the six member countries of the Central African Economic and Monetary Community (CEMAC)—Cameroon, Central African Republic, Chad, Republic of Congo, Equatorial Guinea, and Gabon—comprise the African Financial Community.

The CFA franc is the common currency of these 14 countries in west and central Africa, although each regional grouping issues its "own" CFA franc. The common currency of WAEMU is the franc de la Communauté Financière de l'Afrique (CFA franc), issued by the Banque Centrale des Etats de l'Afrique de l'Ouest. CEMAC's common currency is the franc de la Coopération Financière Africaine (also known as CFA franc), issued by the Banque des Etats de l'Afrique Centrale. Although the two CFA francs are legal tender only in their respective regions, each region's central bank maintains the same parity of its CFA franc against the French franc, and capital can move freely between the two regions.

The CFA franc has been pegged to the French franc since 1948 and to the single European currency (euro) since 1999. Only one devaluation has occurred during the history of the currency peg: from CFA 50 to CFA 100 for FF 1 in January 1994. The member countries of the CFA franc zone and France agreed, through an arrangement with the French treasury, to maintain the currency peg following the euro's introduction in 1999. The French treasury has retained sole responsibility for guaranteeing convertibility of CFA francs into euros, without any monetary policy implication for the Bank of France (French central bank) or the European Central Bank.

The fixed parity between the euro and the CFA franc is based on the official, fixed conversion rate for the French franc and the euro set on January 1, 1999 (FF 6.55957 = EUR 1). The CFA franc–euro exchange rate is CFAF 665.957 = EUR 1.

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the country to prepare a program of corrective measures—meaning that, within a reasonable amount of time, the country should correct its fiscal imbalance. If implementation of the adjustment program does not put the country on the desired path to convergence, the country can become subject to sanction procedures under the convergence pact. These sanctions range from moral suasion to the withdrawal of financial support from regional institutions, such as the Banque Centrale de l'Afrique de l'Ouest and the West African Development Bank.

Irving: Some of the 12 euro-zone countries are now having difficulties adhering to their fiscal criteria. What lessons, if any, do these difficulties hold for the WAEMU countries?

Masson: There are two main lessons, and these relate to themes in our paper. First, cyclical conditions are very important factors in a country's ability to meet convergence criteria. Some of Europe's current difficulties are due to relatively unfavorable cyclical conditions over the past few years. In our view, more weight should be given to the cyclical position of the WAEMU countries. And we show that historically there is some relationship between WAEMU countries' positions relative to the cycle and their fiscal positions.

Second, Europe's experience suggests it's important to have room to maneuver. That means that there should be a margin between the ceiling on deficits and the target that countries aim for in normal times—and especially good times. With that room for maneuvering, countries can better account for and adjust to negative shocks when they do occur.

Irving: WAEMU members made considerable progress toward fiscal consolidation during 1994–97, but fiscal convergence has slowed markedly since 1998. What triggered this change?

Doré: Following the 1994 devaluation of the CFA franc, there was a very strong fiscal adjustment in WAEMU countries. In 1998, most countries began experiencing weak economic growth and faced an adverse external environment. Policy resolve seemed to weaken, largely because most of the countries were entering an electoral cycle, and governments were unable to resist pressures from trade unions for wage increases. Other countries, feeling a sense of "adjustment fatigue," tried to refocus their efforts and looked at the composition of their spending.

Irving: To what extent can fluctuations in terms of trade and the economic cycle explain the deterioration in fiscal performance after 1998?

Masson: We found that, for WAEMU countries, terms of trade shocks are also very important. Although there is strong empirical support in Europe for the cyclical effect on countries' fiscal positions, one somewhat new and important finding in our research is the extent to which the terms of trade are also a driving force behind the fluctuations we've seen in WAEMU. So, since 1998, part of the deterioration in fiscal positions has been due to weak commodity prices.

Doré: In looking at the effect of the cycle on the budget deficit—which basically had not been examined in the context of these countries—we found that, indeed, the fiscal stance is highly sensitive. We estimated that a 1 percentage point shortfall of output from potential worsens the fiscal balance by 0.3 percentage point of GDP on average in the WAEMU, compared with the euro-zone average of 0.5 percentage point. Although smaller in WAEMU, these effects are still significant. For the terms of trade, the effect would be on the order of 0.08 percentage point, which, given the large movements in that variable, is associated with a substantial impact on the deficit. So we argue that both the growth performance and the terms of trade need to be taken into account to some extent in assessing countries' progress toward convergence targets.

Irving: Is WAEMU then an example of a "successful" monetary union—even though fiscal policy has not been so well controlled since 1998?

Masson: To evaluate success or failure, one needs criteria. In my view, too much is probably put at the door of the monetary regime. For example, central banks in industrial countries are typically judged primarily on their success in reducing inflation to tolerable levels. They argue—with some reason—that they can't be expected to succeed in all objectives and that their goal should be primarily a monetary one. On that ground, WAEMU has been quite successful. Aside from the period immediately following the CFA franc's devaluation in 1994, inflation rates have been quite low. In terms of growth, WAEMU's performance has probably not been better than that of neighboring countries with other monetary regimes. But it is somewhat doubtful that growth should be a criterion for evaluating the "success" of monetary unions.

Irving: Will WAEMU's planned elimination of monetary financing of national budget deficits by the regional central bank likely foster fiscal discipline?

Doré: We think so. The Council of Ministers in 1998 took this step to force member countries to adjust by putting constraints on how they finance their budget deficits. Traditionally, countries financed deficits

The hope is that eliminating monetary financing will force governments to have recourse to financial markets through public debt issues to finance their deficit.
–Ousmane Doré

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Masson: "Cyclical conditions are very important factors in a country's ability to meet convergence criteria."

through different means—monetary financing, external financing, and accumulation of arrears. The convergence pact has eliminated arrears as a means of financing deficits. And, external financing is largely outside the control of member governments. The hope is that eliminating monetary financing will force governments to have recourse to financial markets through public debt issues to finance their deficit. If that becomes the only alternative means of financing, it would force member countries to build some credibility before they could issue their paper on the market. With the ongoing development of a well-organized regional financial market, this decision is likely to foster fiscal discipline in the region.

Irving: What form should WAEMU countries' fiscal policies take to meet the convergence targets, given their extremely high poverty levels and the vulnerability of these commodity-producing economies to external shocks?

Masson: The answer would have to be country specific and would depend on a careful examination of each country's needs and capabilities. Broadly speaking, of course, spending on health, education, and infrastructure would have to be a key element of any strategy. And those expenditures would have to be true expenditures on those items rather than some sort of disguised transfer.

Irving: How does the experience of the six Central African Economic and Monetary Community (CEMAC) countries compare with that of WAEMU?

Masson: I recently led the IMF mission for the regional consultation with CEMAC, so this issue is fresh in my mind. It's fair to say that CEMAC is somewhat less advanced in organizing regional surveillance. Certainly, the treaty that created CEMAC was adopted more recently than that which created WAEMU. CEMAC doesn't really have too much practical experience yet. The first mutual surveillance exercises using new fiscal and other criteria have in fact taken place this year.

The main, striking difference between the two zones is that oil revenues are very important in CEMAC. When world oil prices are high, CEMAC oil exporting countries have very little trouble meeting the fiscal deficit criteria. When oil prices are low, members don't meet the criteria by a large margin, but they're usually excused by the fact that this exogenous event is out of their control. We've recommended that they take better account—and somehow smooth the effects—of world oil market developments to get a better handle on the proper way of measuring fiscal convergence. So CEMAC is a region that is somewhat slower than WAEMU in developing regional surveillance, and it has rather special problems that need to be addressed.

Irving: How could CEMAC smooth the effects of oil on its member economies?

Masson: Both CEMAC's regional central bank, the Banque des Etats de l'Afrique Centrale, and the IMF have suggested using a moving average of oil prices to better gauge the underlying fiscal position. There is also a proposal on its way to being implemented in several countries that would set aside oil funds for future generations—it would take some of those revenues out of the budget. There are design issues here: oil funds need to increase total saving and not be misappropriated. It's not a simple problem. But these are responses that are being considered to improve fiscal convergence.

Irving: What do your conclusions portend for the feasibility of plans by the Economic Community of West African States for a wider currency union in the subregion—one that could include The Gambia, Ghana, Guinea, Liberia, Nigeria, and Sierra Leone as well, as the eight WAEMU countries?

Masson: Convergence is very important. Even the WAEMU countries with a long-standing monetary union have not been able to completely achieve the fiscal discipline that they're aiming for. People who suggest that, for example, Nigeria's fiscal problems would be solved by being a member of a monetary union are probably mistaken. Investing in the surveillance procedures and the sanctions on the fiscal policy side and also designing criteria that take account of these cyclical and terms of trade shocks are quite important. ■

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