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In this issue

Köhler meets with Ethiopia's leaders on first leg of African visit

IMF Managing Director Horst Köhler traveled to Ethiopia on July 5 to discuss the challenges facing the drought-stricken country and to emphasize the IMF's strong commitment to support the country's long-term vision for economic growth and poverty reduction. In subsequent stops on the week-long trip, Köhler visited Kenya, Madagascar, and Mozambique, where he attended the African Union Heads of State meeting in Maputo.

Ethiopia, one of the world's poorest countries, is currently struggling to deal with the devastating effects of a severe drought. Köhler's two-day visit provided him with an opportunity to witness firsthand the economic and social challenges that Ethiopians face and to discuss the economic situation with a wide range of people in government and in civil society.

In his meetings with Prime Minister Meles Zenawi, Finance Minister Sufian Ahmed, and the country's economic team, Köhler welcomed the government's decisive actions to deal with the immediate effects of drought and its decision to adopt structural and lasting measures— (Please turn to the following page)

A young Ethiopian woman. Her country is struggling with the effects of a severe drought.

Uruguay takes cooperative approach to a successful debt exchange

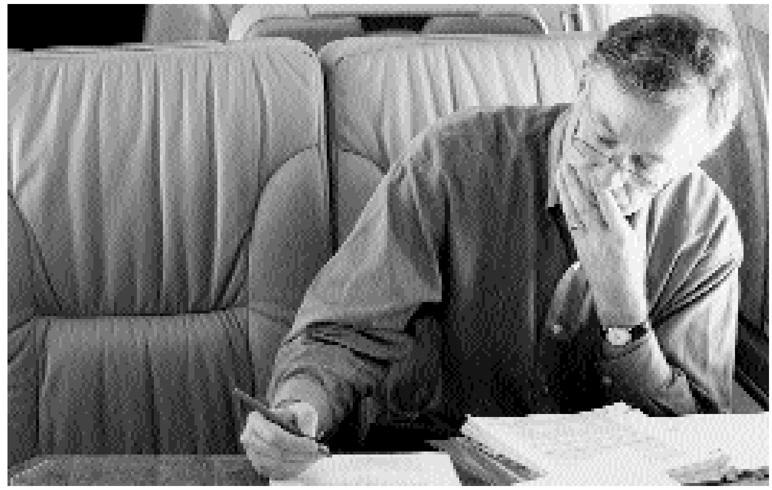
On May 29, the government of Uruguay successfully exchanged most of its market debt (about half of its total debt) for new bonds with longer maturities and roughly unchanged interest rates. The exchange, which provides crucial debt-service relief to a country that has battled external shocks, a severe financial crisis, and a deep recession, constitutes a key component of Uruguay's efforts to restore economic vitality. Gilbert Terrier (Western Hemisphere Department), Rupert Thorne, and Peter Breuer (both International Capital Markets Department) examine the exchange's design, why bondholders responded so favorably, and whether this successful effort might hold lessons for other countries contemplating a similar operation.

At the beginning of 2003, the Uruguayan economy confronted major challenges: output had declined by over 17 percent in the four preceding years, the public debt-to-GDP ratio was approaching 100 percent, the banking system had been hit by a crisis, and the country's credit rating had collapsed. The government was not able to issue new market debt of more than a few weeks maturity, and large residual financing needs were projected to persist for the foreseeable future.

To address these challenges, the authorities were implementing a comprehensive economic program, supported by an exceptionally large Stand-By Arrangement from the IMF and assistance from the World Bank and the Inter-American Development Bank. After initially (Please turn to page 203)

Ethiopia making progress on poverty reduction

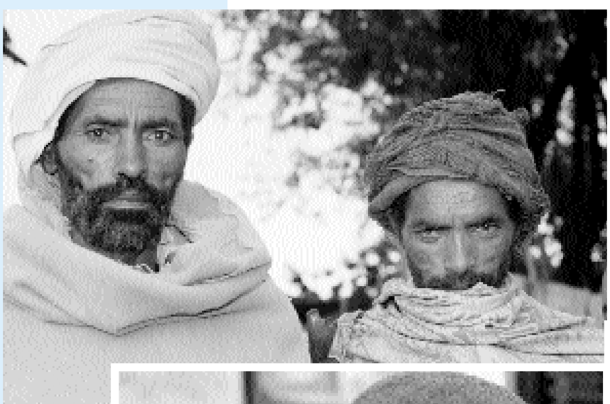
(*Continued from front page*) such as agricultural modernization and investment in key economic and social infrastructure—to ensure food security in the future. He also underscored the international community's critical role in helping Ethiopia contend with this difficult situation.

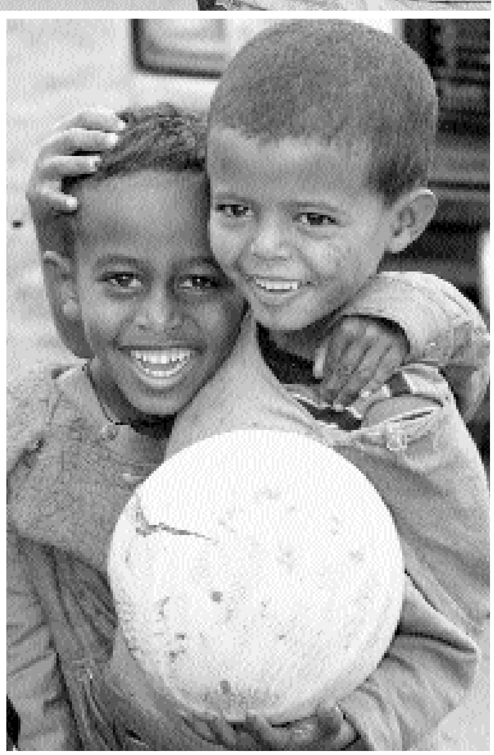


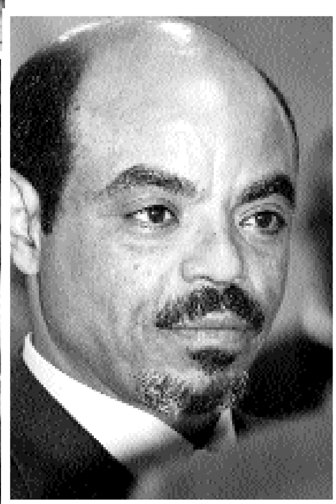
Fighting poverty

The government of Ethiopia is making considerable progress in tackling poverty, aided by an increasing share of government spending earmarked for the social sectors and poverty reduction. Efforts to reduce poverty are also being supported by the IMF through a three-year, $140 million loan under its concessional lending facility—the Poverty Reduction and Growth Facility (PRGF). Over the past three years, poverty-reducing spending has more than doubled as a percentage of GDP, rising from 8 percent in 1999/2000 to close to 18 percent in 2002/03. In his discussions with Prime Minister Meles and his economic team, Köhler proposed measures that could, with the assistance of its development partners, help Ethiopia make progress toward the UN Millennium Development Goals and in particular substantially reduce the prevailing level of poverty. They agreed on the need to ensure high sustainable agricultural growth rates and to foster the role of the private sector.

Köhler and Prime Minister Meles (below, top right) agreed on measures that would help Ethiopia make progress toward the UN Millenium Development Goals, in particular, reducing poverty.







Economic growth, debt sustainability

Ethiopia's comprehensive strategy for achieving sustainable development and reducing poverty aims at achieving a 7 percent real GDP growth rate, consistent with the target set under the New Partnership for Africa's Development initiative. This ambitious growth rate—or perhaps even a higher one—is achievable, Köhler told the press, "provided the pace of structural reforms is accelerated, financial sector reform deepened, and the climate for private, domestic, and foreign investment greatly enhanced to contribute to job and income creation."

In November 2001, Ethiopia reached the decision point under the enhanced initiative for Heavily Indebted Poor Countries (HIPC), with debt relief estimated at $1.9 billion. Köhler said that he sees "a good prospect that Ethiopia will reach the HIPC completion point in early 2004 and thereby contribute to debt sustainability." In this context, he urged donors to provide much needed assistance to Ethiopia, with new assistance given, as far as possible, on grant terms. ■