INTERNATIONAL MONETARY FUND

IMF Survey

APRIL 25, 2005 VOL. 34, NO. 7

www.imf.org/imfsurvey

NEWS: Spring Meetings wrap-up

The world's finance ministers and central bank governors gathered in Washington, D.C., on April 16–17 to take the pulse of the global economy and explore ways to help poor countries boost economic growth and development. On the agenda were safeguarding the global expansion, charting the IMF's future direction, and searching for ways to sharply reduce poverty through increased debt relief, greater access to industrial markets, and more and better aid.

99

RESEARCH: *World Economic Outlook*

The IMF's *World Economic Outlook* forecasts global growth of 4.3 percent in 2005. But, according to Raghuram Rajan, the IMF's Director of Research, regions are growing at different rates: Africa's growth of over 5 percent in 2004 was the highest in nearly a decade, while the euro area and Japan could both have done better. High and volatile oil prices, rising interest rates, and widening current account imbalances are the main risks to the 2005 projections.

106

POLICY: Report card on the MDGs

Without bold, tangible action, warns the IMF–World Bank *Global Monitoring Report* 2005, the UN Millennium Development Goals will be seriously jeopardized. Particularly at risk is sub-Saharan Africa, which is off track on all eight goals. But rapid progress is possible with sufficient commitment to economic reforms on the part of developing countries and support from development partners through additional aid and access to export markets.

110

COUNTRY FOCUS: Brazil reaps the benefits of reform

After a decade marred by disappointing growth and financial crisis, Brazil seems headed for solid and sustainable growth. Strong demand and high global liquidity helped, but the key to success has been fiscal consolidation, a flexible exchange rate, and an improved business environment, according to Charles Collyns and David Owen, two senior IMF staff who have worked closely with Brazilian authorities. Public debt still needs to decline further and reserves must go up, but Brazil's future looks bright.

114

IN THIS ISSUE

IMF Survey

INTERNATIONAL MONETARY FUND

APRIL 25, 2005 VOL. 34, NO. 7

www.imf.org/imfsurvey

NEWS: Spring Meetings wrap-up

The world's finance ministers and central bank governors gathered in Washington, D.C., on April 16–17 to take the pulse of the global economy and explore ways to help poor countries boost economic growth and development. On the agenda were safeguarding the global expansion, charting the IMF's future direction, and searching for ways to sharply reduce poverty through increased debt relief, greater access to industrial markets, and more and better aid.

Eugene Salazar/IMF

99

RESEARCH: *World Economic Outlook*

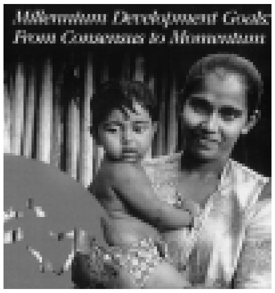
The IMF's *World Economic Outlook* forecasts global growth of 4.3 percent in 2005. But, according to Raghuram Rajan, the IMF's Director of Research, regions are growing at different rates: Africa's growth of over 5 percent in 2004 was the highest in nearly a decade, while the euro area and Japan could both have done better. High and volatile oil prices, rising interest rates, and widening current account imbalances are the main risks to the 2005 projections.

Stephen Jaffe/IMF

106

POLICY: Report card on the MDGs

Without bold, tangible action, warns the IMF–World Bank *Global Monitoring Report* 2005, the UN Millennium Development Goals will be seriously jeopardized. Particularly at risk is sub-Saharan Africa, which is off track on all eight goals. But rapid progress is possible with sufficient commitment to economic reforms on the part of developing countries and support from development partners through additional aid and access to export markets.

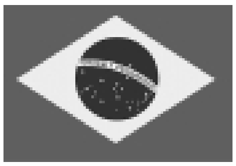


World Bank

110

COUNTRY FOCUS: Brazil reaps the benefits of reform

After a decade marred by disappointing growth and financial crisis, Brazil seems headed for solid and sustainable growth. Strong demand and high global liquidity helped, but the key to success has been fiscal consolidation, a flexible exchange rate, and an improved business environment, according to Charles Collyns and David Owen, two senior IMF staff who have worked closely with Brazilian authorities. Public debt still needs to decline further and reserves must go up, but Brazil's future looks bright.



114

IN THIS ISSUE

What's on

April

28-29 World Economic Forum—Asia Roundtable 2005: "Tilting the Global Balance: The Strategic Implications of Asia's Growth," Singapore

May

4–6 Asian Development Bank Annual Meeting, Istanbul, Turkey

4–6 Third Ministerial Conference of the Community of Democracies, Santiago, Chile

5 IMF Book Forum, Jean Clément and Ragnar Gudmundsson, *Postconflict Economics in Sub-Saharan Africa: Lessons from the Democratic Republic of the Congo*, Washington, D.C.

12–13 "Making Services Work for Poor People: From New Knowledge to Changed Practice?" World Bank, Washington, D.C.

16–25 World Health Organization World Health Assembly, Geneva, Switzerland

18–19 African Development Bank Annual Meeting, Abuja, Nigeria

18–20 IMF seminar for legislators and journalists, San José, Costa Rica

22–23 Annual Meeting of the European Bank for Reconstruction and Development, Belgrade, Serbia

29–30 IMF High-Level Seminar on "Policies for Growth and Equity in Latin America and the Caribbean," Santiago, Chile

June

1–3 World Economic Forum—Africa Economic Summit, Cape Town, South Africa

1–3 InterAction Annual Conference, "Charting a Course for Relief & Development: Advancing the Millennium Development Goals and Other Global Commitments," Washington, D.C.

2–3 APEC Meeting of Trade Ministers, Jeju, Korea

5–7 Organization of American States General Assembly, Fort Lauderdale, Florida

10–11 Group of Seven Finance Ministers' and Central Bank Governors' Meeting, London

15–16 IMF-Singapore Regional Training Institute conference on "Managing Fiscal Risks in Asia," Singapore

29–July 1 ECOSOC Substantive Session, High-Level Segment, New York

July

1–5 International Conference on AIDS in Asia and the Pacific, Kobe, Japan

6–8 Group of Eight Summit, Gleneagles Hotel, Scotland

IMF Executive Board

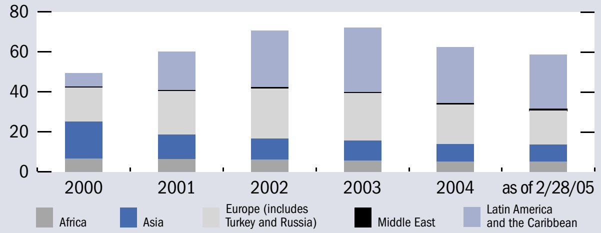
For an up-to-date listing of IMF Executive Board meetings, see *www.imf.org.external/np/sec/bc/eng/index.asp.*

At a glance

IMF financial data

Total IMF credit and loans outstanding, by region

(billion SDRs, end of period)



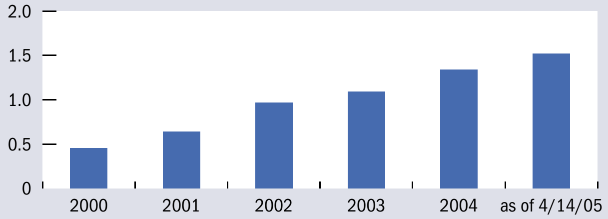
Largest outstanding loans

(billion SDRs, as of 2/28/05)

Nonconcessional		**Concessional**	
Brazil	16.12	Pakistan	1.04
Turkey	13.42	Zambia	.57
Argentina	8.79	Congo, Dem. Rep. of	.53
Indonesia	6.13	Ghana	.30
Uruguay	1.66	Tanzania	.26

HIPC debt relief[1]

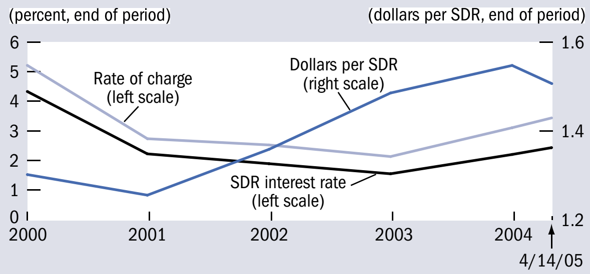
(billion SDRs, end of period)



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

Related rates

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



Note on IMF Special Drawing Rights

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

IMF–World Bank Spring Meetings overview

Ministers urge vigilance to safeguard global economic pickup

Against the backdrop of robust expansion of the global economy, but increased downside risks, top economic and financial policy leaders warned on April 16 in Washington, D.C., that hefty current account imbalances across regions, potential exchange rate instability, high oil prices and oil market volatility, and the potential for higher long-term interest rates all cloud the currently bright economic picture. The world's finance ministers and central bank governors were gathered for the spring meeting of the International Monetary and Financial Committee (IMFC), the IMF's ministerial steering committee. They also cautioned that most developing countries were likely to miss most of the Millennium Development Goals (MDGs) by the 2015 target date and called on donor nations to increase the amount and quality of development financing.


Stephen Jaffe/IMF

(From left to right): Gerrit Zalm (Minister of Finance, Netherlands), Li Ruogu (Deputy Governor, People's Bank of China), IMF Deputy Managing Director Anne Krueger; IMFC Chair Gordon Brown, and Rodrigo de Rato.

IMFC Chair Gordon Brown, U.K. Chancellor of the Exchequer, told reporters after the meeting that countries around the world need to take concrete steps to ensure orderly adjustment of global imbalances. As the IMFC communiqué noted, these steps include "fiscal consolidation to increase national savings in the United States; greater exchange rate flexibility as appropriate, supported by continued financial sector reform, in emerging Asia; further structural reforms to boost growth and domestic demand in Europe; and further structural reforms, including fiscal consolidation, in Japan" (see page 101). IMF Managing Director Rodrigo de Rato added that if country policies do not adapt and react to the imbalances, "we run the risk of an abrupt correction by the markets at a moment in which confidence, for different reasons, could evaporate or could be reduced."

The IMFC underscored the vital importance of progress on the Doha Round of global trade talks. It urged participants to "aim for ambitious and comprehensive results"—notably in agriculture, financial and other services, and multilateral trade rules. The IMFC also expressed support for the IMF's advocacy of trade liberalization and encouraged it to explore additional ways to ease the adjustment costs of those countries that do liberalize. These sentiments were seconded by the African finance ministers, who told reporters that industrial countries now need to make good on their promises of greater market access (see page 112).

In the coming months, the IMFC emphasized, IMF surveillance should "focus on promoting policies for reducing global imbalances over time; addressing the impact of higher oil prices, in particular on the most vulnerable countries; managing the policy response to potential inflationary pressures; and ensuring the sustainability of medium-term fiscal frameworks." Given the vital role that a stable oil market plays in global prosperity, it urged oil-producing countries to "remove disincentives to investment in oil production and refining capacity" and encouraged countries "to promote energy sustainability and efficiency." It also saw benefits in a closer dialogue between oil exporters and importers, and recommended that greater efforts be made to improve oil market data and transparency. The IMF is forecasting global growth of 4.3 percent in 2005 and 4.4 percent in 2006—close to its potential rate—after 5.1 percent growth in 2004, the fastest in a generation (see page 106).

The IMFC welcomed Argentina's rapid recovery, and noted that the recent debt exchange offer represents an important step toward sustainable growth. It said that "Argentina will now need to formulate a forward-looking strategy to resolve the remaining arrears outstanding to private creditors consistent with the IMF's lending into arrears policy, and to continue with necessary structural reforms."

IMF charts its course

On the IMF's future direction, the IMFC took up a preliminary report on one of de Rato's first initiatives as Managing Director: a strategic review of the organization. The IMFC discussed the preparation of a medium-term strategy that, when finalized at the September 2005 Annual Meetings, will provide the basis for the IMF's work program and budgetary framework for the next three years (see page 105). The IMFC encouraged the IMF to do further work on the following "emerging priorities that will help shape the institution's strategic direction": surveillance; finance sector issues and international capital markets; lending; low-income countries, internal management and governance; and member countries' quotas, voice, and participation in the IMF.

The IMFC noted that the Thirteenth Review of Quotas, which is currently underway, "provides an opportunity for the membership to make progress toward a consensus." In remarks to the IMFC, Japan's Minister of Finance Sadakazu Tanigaki pointedly asked "whether Asia has a status in the IMF that is proportionate to its increasing relative importance in the world economy." IMF quotas, he said, should reflect current realities and relative positions in the world economy, and in these areas—as well as representation on the IMF Board and in the diversity of the IMF's staff—"East Asian countries are seriously underrepresented."

De Rato said that the debate over country quotas in the IMF is one "shareholders should face" and one that is not a technical issue but a "political issue that demands countries to recognize" possibly new circumstances and new relative country weights in the world economy. Such a re-examination might also include a new look at the role of basic quotas, which are allotted to all countries and whose relative importance may have been eroded over the years, to the disadvantage of small and poor countries. The communiqué of the Group of 24 developing countries charged that the "current underrepresentation of developing countries in the IMF and the World Bank Executive Boards undermines the legitimacy and effectiveness of these institutions."


Stephen Jaffe/IMF
De Rato bids farewell to Wolfensohn.

Debt relief, more aid needed

As for the low-income countries, the financial leaders agreed that poverty reduction must remain at the top of the international agenda and that efforts must be stepped up to help these countries make faster progress in reducing poverty and toward the MDGs—including through debt relief and more and better aid (see page 109). The IMFC noted that with improved macroeconomic stability in most developing countries, "the key challenge remains to press ahead with reforms to strengthen the investment environment and foster private sector-led growth. The global community, in turn, needs to support these reform efforts through meeting commitments to increased and better coordinated financial and technical assistance, further debt relief, policies to improve remittance flows, and improved market access for developing countries."

The IMFC noted that the IMF has "a critical role" in supporting low-income countries' efforts to achieve macroeconomic stability, debt sustainability, and strong, sustainable high growth needed to make progress toward the MDGs. The Committee looked forward to further work to ensure adequate financing of the Poverty Reduction and Growth Facility and other IMF instruments to assist low-income countries. It also looked forward "to further work on a policy monitoring arrangement to enhance the IMF's signaling role for countries that do not need or want IMF financing."

The joint IMF-World Bank Development Committee, which met on April 17, noted that "without tangible action to accelerate efforts, the vision of the Millennium Declaration will not be realized. At stake are prospects not only for hundreds of millions of people to escape poverty, disease, illiteracy, and gender inequality but also for long-term global security and peace, which are intimately linked to development." This assessment was based on the findings of the IMF-World Bank 2005 *Global Monitoring Report* (see page 110). Trevor Manuel, Development Committee Chair and South Africa's Minister of Finance, told reporters after the meeting that there was a "general agreement that every country must commit more resources."

Wolfensohn says goodbye

Reflecting on outgoing World Bank President James Wolfensohn's achievements, Brown highlighted debt relief for 27 countries and progress made in realizing "our dream of a world free of poverty." De Rato saluted Wolfensohn's role in deepening the collaboration between the two institutions and said that "Jim is going to be remembered by many people who are not here and probably will never meet him but are people who benefited from his work in fighting poverty."

Wolfensohn, who retires shortly, told reporters that he has derived the greatest satisfaction from "having the Bank become more of a partner than a policeman with the developing world." Asked about the chances of reaching the MDGs by 2015, he said, "my hope is that at the meetings of the UN at the heads of state level, they will recognize that what they said in the year 2000 was right. They weren't forced to say in 2000 that for the world to live in peace, we have to meet these goals." ■

IMFC communiqué

All nations urged to tackle global imbalances

Following is the full text of the communiqué issued by the International Monetary and Financial Committee (IMFC) after its meeting in Washington, D.C., on April 16. The meeting was chaired by Gordon Brown, Chancellor of the Exchequer of the United Kingdom.

At the opening of the IMFC meeting are (from left to right), IMF Deputy Managing Director Anne Krueger, IMF Managing Director Rodrigo de Rato, and IMFC Chair Gordon Brown.

Global outlook, risks, and policy responses

The Committee welcomes the continuing global economic expansion, underpinned by supportive macroeconomic policies, improving corporate balance sheets, and benign financial market conditions. While returning to a more sustainable pace, global growth will likely remain robust in 2005. The Committee notes, however, that widening imbalances across regions and the continued rise in oil prices and oil market volatility have increased risks. The potential for a sharper than expected rise in long-term interest rates from their very low levels and for increased exchange rate volatility also calls for vigilance. The Committee emphasizes that in the coming months IMF surveillance should focus on promoting policies for reducing global imbalances over time; addressing the impact of higher oil prices, in particular on the most vulnerable countries; managing the policy response to potential inflationary pressures; and ensuring the sustainability of medium-term fiscal frameworks.

The Committee reiterates that all countries have a shared responsibility to take advantage of the current favorable economic conditions to address key risks and vulnerabilities. To ensure orderly adjustment of global imbalances and to help achieve more sustainable external positions and stronger medium-term growth, the Committee calls for concrete actions by all to implement the agreed policy response in a timely and effective manner. This includes fiscal consolidation to increase national savings in the United States; greater exchange rate flexibility as appropriate, supported by continued financial sector reform, in emerging Asia; further structural reforms to boost growth and domestic demand in Europe; and further structural reforms, including fiscal consolidation, in Japan.

The Committee notes that conditions in the oil market will remain tight in the medium term, reflecting strong global demand, low excess capacity, and supply concerns even after investments in some countries. It underscores the importance of stability in oil markets for global prosperity, and recognizes the impact of higher oil prices especially on poorer communities. In this context, the Committee calls for efforts to remove disincentives to investment in oil production and refining capacity, and to promote energy sustainability and efficiency, including through new technologies and removing barriers to the development of alternative fuels. It encourages closer dialogue between oil exporters and importers, and further efforts to improve oil market data and transparency.

Inflation remains relatively subdued in most countries, reflecting in part greater credibility of monetary policy. However, with inflationary pressures likely to increase as the expansion matures, a smooth transition to more neutral interest rates remains a priority in many countries, although the appropriate timing and pace will vary, depending on countries' cyclical positions. In countries receiving strong capital inflows, exchange rate flexibility would facilitate monetary management.

Steps to strengthen fiscal positions within sound frameworks and address structural weaknesses will also be critical for supporting medium-term growth and macroeconomic stability, and meeting demographic challenges. Fiscal deficits remain high in many industrial countries and should be reduced. In emerging markets, fiscal indicators have generally improved, but in countries with high levels of public debt continued efforts will be needed to reduce them to more sustainable levels. In both industrial and developing economies, structural reforms need to be advanced to remove rigidities and ensure sustainable growth. The Committee welcomes Argentina's rapid recovery. The recent

Stephen Jaffe/IMF

From left to right: José Antonio Ocampo (Under-Secretary-General, Department of Economic and Social Affairs, UN) and Li Yong (Vice Minister of Finance, China).

Eugene Salazar/IMF

From left to right: Gerrit Zalm (Minister of Finance, Netherlands) with Joseph Deiss (Federal Councilor, Minister of Economic Affairs, Switzerland).

debt exchange offer represents an important step toward the long-term goal of sustainable growth. Argentina will now need to formulate a forward-looking strategy to resolve the remaining arrears outstanding to private creditors consistent with the IMF's lending into arrears policy, and to continue with necessary structural reforms.

Poverty reduction must remain at the top of the international agenda. The Committee welcomes the strong growth performance across developing countries, particularly in sub- Saharan Africa, but notes with concern that most of them are at risk of falling well short of the Millennium Development Goals (MDGs). With improved macroeconomic stability in most countries, the key challenge remains to press ahead with reforms to strengthen the investment environment and foster private sector-led growth. The global community, in turn, needs to support these reform efforts through meeting commitments to increased and better coordinated financial and technical assistance, further debt relief, policies to improve remittance flows, and improved market access for developing countries.

The Committee emphasizes that successful and ambitious multilateral trade liberalization is central to sustained global growth and economic development. The immediate priority is for WTO [World Trade Organization] members to translate the mid-2004 framework agreements into a viable policy package in time for the December 2005 WTO Ministerial Conference. The Committee encourages Doha participants to aim for ambitious and comprehensive results, notably in agriculture; substantial reductions in barriers to other trade, including liberalization in financial and other services; and strengthened multilateral trade rules. The Committee supports the IMF's continued role in advocating trade liberalization and assisting members to benefit from it. It encourages the IMF to work with other partners in the Integrated Framework to explore further ways of easing adjustment to trade liberalization, including through the Trade Integration Mechanism, and building capacity in low-income countries. The Committee looks forward to consideration of proposals at its next meeting.

Shaping the IMF's strategic direction

The Committee welcomes the discussions under way on the IMF's medium-term strategy, and looks forward to reaching conclusions by the 2005 Annual Meetings and further reflection on longer-term issues. The Committee agrees that the central elements of the IMF's mandate as set out in its Articles of Agreement remain as important as ever. The challenge is to enhance the IMF's effectiveness in pursuing its core objectives, while continuing to adapt to changing global economic circumstances. This would ensure that the IMF remains relevant for all its members, which would further foster the coherence, credibility, and evenhandedness of the IMF.

The Committee calls for further work on the following emerging priorities that will help shape the institution's strategic direction:

• Surveillance is a central task of the IMF and determined efforts are required to enhance its effectiveness and impact, building on the conclusions of the Biennial Review of Surveillance. Surveillance should become more focused and selective in analyzing issues, in an evenhanded way across the membership. Regional and global surveillance should play an

Eugene Salazar/IMF

From left to right: Mervyn King (Governor, Bank of England) greets Palaniappan Chidambaram (Minister of Finance, India) and Yaga V. Reddy (Governor, Reserve Bank of India).

Eugene Salazar/IMF

From left to right: Juan Somavia (Director-General of the International Labor Organization) meets with Antonio Palocci (Minister of Finance, Brazil).

increasingly important role, and be better integrated with bilateral surveillance.

• Work on financial sector issues and international capital markets should be further strengthened to reduce vulnerabilities and promote financial stability. This, including the Financial Sector Assessment Program, should be integrated more fully into surveillance and other activities, and complemented by advice to members on ways to improve access to international capital markets and on orderly capital account liberalization.

• The IMF's lending function is a central pillar of its mandate. All lending should be selective and anchored in strong country ownership and institutional frameworks, putting members firmly on the road to external viability. The Committee looks forward to further reflection on how the needs of members could be met through IMF arrangements, and whether new instruments or revisions to existing facilities are required.

• The IMF has a critical role to play in helping low-income countries in their efforts to reduce poverty and achieve strong, sustainable growth through sound policies and institutions for macroeconomic stability. Efforts should continue to adapt the IMF's activities and instruments to the special circumstances and challenges of low-income countries, based on strong cooperation and clarity of responsibilities with the World Bank.

• The IMF must meet the highest standards of internal management, control, auditing, and governance. This will require further deepening of budget reforms, further work on the IMF's finances and financial structure, and efficient deployment of resources to reflect priorities. The Committee also looks forward to further work on risk management and control, and personnel management systems.

• The IMF's effectiveness and credibility as a cooperative institution must be safeguarded and further enhanced. Adequate voice and participation by all members should be assured, and the distribution of quotas should reflect developments in the world economy. The Committee emphasizes that the period of the Thirteenth General Review of Quotas provides an opportunity for the membership to make progress toward a consensus on the issues of quotas, voice, and participation.

IMF support for low-income member countries

The Committee underscores the conclusion of this year's *Global Monitoring Report* that bold actions are urgently needed by the developing countries and their partners to realize the MDGs. The UN Summit in September 2005 will mark an important milestone to review progress and lay out actions going forward. The IMF has a critical role in supporting—through policy advice, capacity building, and financial assistance, including debt relief—low-income countries' efforts to achieve macroeconomic stability, debt sustainability, and strong, sustainable high growth needed to make progress toward the MDGs.

Work is under way to refine the operational aspects of the Poverty Reduction Strategy (PRS) approach, improve the design of [Poverty Reduction and Growth Facility] PRGF-supported programs, and enhance PRGF–PRS alignment. This will be underpinned by more extensive analyses of the sources of and obstacles to growth, and of the linkages between growth and poverty reduction. The Committee looks forward to further work to ensure adequate financing of the PRGF to meet future demands as assessed by the IMF, and other IMF instruments to assist low-income countries, including to help members deal with shocks. It also looks forward to further work on a policy monitoring arrangement to enhance the IMF's signaling role for countries that do not need or want IMF financing.

The Committee supports work by the IMF and the World Bank on aid effectiveness and financing modalities. On innovative sources of development financing—such as the International Finance Facility (IFF) and its pilot, the IFF for immunization; global taxes, which could also refinance the IFF; the Millennium Challenge Account; and other financing measures—it welcomes the joint IMF and World Bank note outlining progress that has been made. The Committee asks to be kept informed of the further work ahead of the UN Summit.

The Committee notes the recent progress in providing debt relief under the [Heavily Indebted Poor Countries] HIPC Initiative. It encourages countries to take the necessary actions to benefit from the Initiative, and urges full creditor participation. The Committee supports the joint IMF–World Bank framework to assist low-income countries' efforts to achieve and maintain debt sustainability while pursuing their development objectives, and a review of experience under the framework.

The Committee welcomes the IMF's work and the preliminary discussion of key issues regarding proposals for further multilateral debt relief and its financing options, and calls for further discussion with shareholders and examination of these issues, including the possible use of the IMF's resources, by the time of its next meeting. It notes that any possible further debt relief from the IMF should be part of a wider international effort.

Other issues

The Committee welcomes progress toward meeting the objectives of IMF surveillance identified at its last meeting, including in the areas of exchange rate issues, financial sector surveillance, better integrating debt sustainability analysis and regional and global spillovers into country surveillance, and balance sheet vulnerabilities. It also welcomes the *Africa Regional Economic Outlook*. The Committee looks forward to the upcoming review of the Standards and Codes Initiative to assess its effectiveness in informing surveillance, enhancing crisis prevention, and strengthening countries' institutions.

The Committee welcomes the increased adoption of collective action clauses in international sovereign bonds, and calls on the IMF to continue to promote progress in this area.


Eugene Salazar/IMF

Trevor Manuel, Chair of the Development Committee and South Africa's Finance Minister (left) chats with IMFC Chair Gordon Brown.

It notes the "Principles for Stable Capital Flows and Fair Debt Restructuring in Emerging Markets" being developed by a number of sovereign issuers and the investor community, and encourages further efforts to improve the Principles aimed at achieving a broad consensus. The Committee looks forward to further work on the orderly resolution of financial crises, including the implementation of the IMF's lending into arrears policy.

The Committee takes note of the recent review of IMF conditionality, including the design of IMF-supported programs. Progress has been made in streamlining conditionality and fostering national ownership. The Committee encourages the IMF to incorporate the findings of the review into its operational work and to deepen further its analysis of key elements of program design.

The Committee recommends completion of the ratification of the Fourth Amendment.

The Committee wishes to thank James Wolfensohn for his great contribution as President of the World Bank. During his time at the helm of the Bank, great strides have been made in cooperation and partnership between the IMF and the World Bank, and in progress toward realizing our dream of a world free of poverty.

It is expected that the next meeting of the IMFC will be held in Washington, D.C., on September 23, 2005. ■

The full text of the IMFC and the Development Committee communiqués, as well as Spring Meetings speeches and press conference transcripts, are available on the IMF's website *(www.imf.org)*.

IMF must adapt to meet strategic challenges

The IMF has embarked on a comprehensive review of its strategic direction, aimed at elaborating a shared vision of its future role and priorities. The IMFC took up a preliminary report on a major aspect of that review—the preparation of a medium-term strategy to guide the Fund's work program and budget—and looked forward to reaching conclusions by the September 2005 Annual Meetings and further reflection on longer-term issues.

The strategic review, which IMF Managing Director Rodrigo de Rato called for in 2004 and has been led by First Deputy Managing Director Anne Krueger, took as its natural starting point the directive of the 1944 Bretton Woods conference that the IMF promote macroeconomic and financial stability, nationally and internationally, and encourage international monetary cooperation to address shared challenges. "By providing these global public goods, the Fund contributes to the achievement of sustained economic growth," the Managing Director's report to the IMFC said.

Evolution as an imperative

The IMF's Executive Directors noted in their March 2005 discussion of the medium-term strategy, global developments, the changing needs of a diverse membership, and the lessons of experience call for continued evolution "with surveillance, technical assistance, and lending remaining the principal vehicles for carrying out the Fund's purposes."

The Managing Director's report to the IMFC highlighted the key role played by effective underlying institutions, the need to focus IMF operations on "issues that matter most for macroeconomic and financial stability," and the growing importance of regional and global surveillance, financial sector surveillance, and capital account developments. The report also underscored the continued vital role of IMF lending and the Fund's active engagement in promoting stability and sustained growth, as well as helping reduce world poverty and achieve the Millennium Development Goals. The report also reaffirmed the IMF's commitment to making the most effective use of the resources entrusted to the IMF by its membership.

While the IMF's original mandate remains "as important as ever," the challenge going forward, the IMFC said, is to "enhance the IMF's effectiveness in pursuing its core objectives, while continuing to adapt to changing global economic circumstances. This would ensure that the IMF remains relevant for all its members, which would further foster the coherence, credibility, and evenhandedness of the IMF."

IMFC calls for further work

To help shape the IMF's strategic direction, the IMFC called for further work on a number of emerging priorities:

- ***Enhancing the effectiveness and impact of surveillance.*** Building on the conclusions of the 2004 Biennial Review, surveillance should become more focused and selective in analyzing issues in an evenhanded way across the membership. Regional and global surveillance should play an increasing role and be better integrated with country surveillance.
- ***Work on financial sectors and international capital markets should be strengthened further to reduce vulnerabilities and promote financial stability.*** This work, including financial sector assessments, should be more fully integrated into surveillance and other activities. This should be complemented by advice to members on ways to improve access to international capital markets and on orderly capital account liberalization.
- ***Lending.*** The IMF's financing should be "selective and anchored in strong country ownership and institutional frameworks, putting members firmly on the road to external viability." The Committee looked forward to further reflection on how the needs of members could be met and whether new instruments or revisions to existing facilities are required.
- ***Role in low-income countries.*** The IMF has a critical role to play in helping low-income countries reduce poverty and lay the macroeconomic foundations for strong, sustainable growth. Efforts should continue to adapt the IMF's activities and instruments to the special circumstances of poor countries based on strong cooperation with the World Bank and clarity of responsibilities.
- ***Meeting the highest internal standards.*** Effective use of its members' resources requires that the IMF meet the highest standards of internal management, control, auditing, and governance. This will require further deepening of budget reforms, additional work on the IMF's finances and financial structure, efficient deployment of resources to reflect priorities, and further work on risk management and control, and personnel management systems.
- ***Safeguarding and enhancing the IMF's effectiveness and credibility.*** All IMF members must have adequate voice and participation in the institution, and the distribution of its quotas—which in part determine voting power and the potential scale of Fund lending, in total and among countries—should reflect developments in the world economy. ■

Research

World Economic Outlook

Global growth in 2005 likely to remain robust, despite risks

Global economic growth in 2004, at 5.1 percent, was the highest in decades, announced Raghuram Rajan, IMF Economic Counsellor and Director of the Research Department, at an April 13 press conference releasing the April 2005 *World Economic Outlook (WEO)*. The *WEO* projects 4.3 percent growth in 2005, which is close to the trend rate, but higher and volatile oil prices, rising interest rates, and widening current account imbalances mean the risk to that projection is tilted to the downside. And there has been increasing divergence in growth across regions: the expansion is still overly dependent on growth in the United States and emerging Asia, while sustained recovery is yet to be seen in the euro area and Japan.

Regional prospects

The U.S. economy "continues to hum," noted Rajan: annual GDP growth of 3.6 percent is projected for both 2005 and 2006. The *WEO* projects a moderation in private consumption, reflecting a withdrawal of fiscal and monetary stimulus, offset by continued strength in investment.

In the euro area, the modest expansion that seemed to be under way during the first half of 2004 hit the rails in the second half of the year, Rajan said. Weak domestic demand was compounded by weak export growth. The *WEO* now projects 1.6 percent growth in 2005, down from 2.2 percent projected in September.

The Japanese economy continues to be moody, Rajan remarked. In 2004, ebullience in the first quarter gave way to despondency in the rest of the year. However, underlying fundamentals have improved, and the *WEO* expects the economy will record growth of 0.8 percent in 2005, rising to 1.9 percent in 2006.

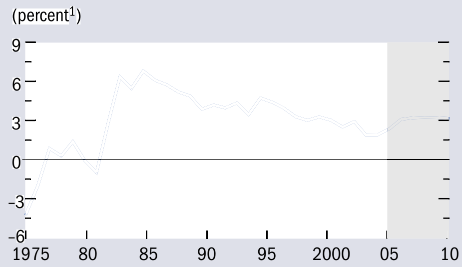
The two fast-growing emerging giants—India and China—have contrasting problems related to investment, Rajan noted. Investment in China accounted for an extraordinary 45 percent of GDP in 2004, and the government is concerned about the *quality* of this investment. In this regard, reforms in the financial sector and in public enterprises will be critical, while greater exchange rate flexibility could also help. By contrast, India needs *more* investment, especially in infrastructure, said Rajan. To create room in the already overstretched government budget, the authorities will have to rationalize expenditures and expand revenues. They will also have to strengthen policy frameworks to raise investment by the private sector.

Other regions of the world have also been growing robustly. One of the brightest spots in the current global recovery, Rajan said, has been sub-Saharan Africa, where growth accelerated to over 5 percent in 2004—the highest in almost a decade. The *WEO* expects growth prospects in Africa to remain favorable in 2005 and 2006.

In Latin America, Brazil performed notably well in 2004, with growth of 5.2 percent—partly thanks to the fiscal and structural reforms the government has implemented. The monetary authorities have appropriately responded to higher inflation by raising interest rates, and the balance between fiscal and monetary policy seems reasonable. High interest rates, Rajan said, signal the need for a greater focus on structural reforms to improve the functioning of the financial sector.

On the rise

Global real long-term interest rates are increasing.



Note: Shaded area indicates IMF staff projections.
[1]GDP-weighted average on long-term government bond yields minus inflation rates for the United States, Japan, Germany, France, Italy, the United Kingdom, and Canada.
Data: IMF, *World Economic Outlook, April 2005.*

Risky business: interest rates, oil, and imbalances

The projection of robust growth in the world economy is framed by significant risks, however. Rajan cited higher interest rates, high and volatile oil prices, and increasing current account imbalances, adding that these risks must be viewed in the context of two important medium-term transitions now taking place: the increasing economic importance of developing countries and the aging of industrial country populations. Too little is being done to adjust to these transitions, and current risks reflect this.

Developing and emerging market countries will account for an increasingly important share of world GDP, noted Rajan. Not only is GDP in these countries more volatile, but it will also be more commodity-intensive. Even by conservative estimates, China should see car ownership multiply 15 times over the next quarter-century, and India will not be far behind. While the spectacular growth of these countries will benefit all, it will also strain existing resources.

The second major transition is the aging of populations in the rich industrial countries. Not only should these countries be restructuring their own work environment to make better use of the changing labor force, Rajan observed, but also many of them should be sending capital to younger, poorer developing countries. "This will enable Adrian and Becky to draw on their foreign investments in their old age," Rajan remarked, "even while the younger, increasingly skilled Abebe or Nafisa receive the capital to remain productive today." Rich countries should be saving more and running current account surpluses, and poor countries should be investing more, and running larger current account deficits.


Stephen Jaffe/IMF

Rajan: The markets may not be willing to wait until after the next election.

Instead, capital is flowing in the wrong direction nowadays; emerging markets are financing the rich (see table). The problem with global imbalances is not just the small but costly risk that financial markets will become wary of financing the U.S. current account deficit but also the fact that the direction of capital flows does not match what is needed given demographic trends. Markets will eventually deal with both the resource crunch and the global reallocation of capital, but governments have to help markets work better by removing impediments.

All regions have a part to play

Turning to global payments imbalances, Rajan stressed that all regions have a role in correcting them. Everyone seems to agree on that, he noted, but their attitudes toward the attendant policy changes seem much like St. Augustine's "Lord, give me chastity, but not just yet." A mutually agreed, credible, multilateral framework for policy action, with specifics on measures and timing, would help keep markets calm.

The United States needs to save more, Rajan said. The worthy intent of halving the fiscal deficit by 2009 needs to be backed by credible measures to achieve it. The U.S. consumer who has bought the world out of recession needs to rest a bit now and save more. Monetary policy could help if higher interest rates lead to greater household saving.

A number of emerging markets, especially in Asia, have built up enough reserves to protect against everything short of the Apocalypse, joked Rajan. The reserve buildup is now undermining monetary control. These countries, he said, need to introduce greater exchange rate flexibility, which would slow reserve buildup and allow countries to regain monetary control. Financial sector reforms to allocate capital more transparently and profitably would also increase the returns to investment. This should not only lead to higher investment but also reduce the need to save, allowing imported capital to fill the gap. Capital could then flow again in the desired direction.

Europe and Japan will have to help out too, Rajan said, by growing faster. Europe simply cannot afford its welfare state, while Japan will have difficulty dealing with its fiscal problems. Structural reforms to increase competition and flexibility are essential. When call centers are helping firms around the world squeeze 24 hours into a working day, Europe should not still be debating stretching 35 hours into a working week.

Politicians typically deal only with the painfully immediate, Rajan observed. Thus far, the periods of foreign exchange or oil price volatility have been relatively brief and the resulting pain muted, so politicians have not been forced to focus on those issues. But the world economy is running out of time; markets may not be willing to wait until after the next election. Rajan emphasized that action is needed now. ■

Marina Primorac
IMF External Relations Department

Widening current account imbalances

Emerging markets are financing the rich countries.
(percent of GDP)

	2003	2004	2005[1]	2006[1]
Major advanced economies[2]	–1.6	–1.7	–1.9	–1.8
United States	–4.8	–5.7	–5.8	–5.7
Euro area[3]	0.3	0.6	0.4	0.4
Japan	3.2	3.7	3.3	3.5
United Kingdom	–1.7	–2.2	–2.3	–2.4
Canada	2.0	2.6	2.6	2.5
Newly industrialized Asian economies	7.4	7.1	6.8	6.2
Korea	2.0	3.9	3.6	2.9
Taiwan Province of China	10.2	6.2	6.6	5.9
Hong Kong SAR	10.3	9.6	9.4	9.3
Singapore	29.2	26.1	23.4	22.9

[1]Projections.
[2]Includes Canada, France, Germany, Italy, Japan, the United Kingdom, and the United States.
[3]Corrected for reporting discrepancies in intra-area transactions.
Data: IMF, *World Economic Outlook*, April 2005.

Copies of the April 2005 *World Economic Outlook* are available for $49.00 each ($46.00 academic price) from IMF Publications Services. The full text of the latest issue of the *World Economic Outlook* is available on the IMF's website (*www.imf.org*).

Oil market to remain volatile on rising demand, sluggish supply

Continued strong global demand, supply concerns, and limited spare capacity are likely to keep oil prices high and volatile, according to the latest issue of the IMF's *World Economic Outlook (WEO)* and the IMF staff report *Oil Market Developments and Issues*. The IMFC communiqué also stressed the importance of stable oil prices for global prosperity and called for efforts to remove disincentives to investment in oil production and to promote energy sustainability and efficiency.

Over the past two years, the global economic recovery, high oil demand, and a series of supply disruptions eroded spare production capacity. This pushed up the average oil price used for analytical purposes by IMF staff to about $50 a barrel in March 2005 from an average of about $20 (in 2003 dollars) during the 1990s. "The oil market will remain tight in the coming years, and high and volatile oil prices will continue to present a serious risk to the global economy," IMF chief economist Raghuram Rajan told the press. High oil prices will be one reason why global growth will slow by 0.7–0.8 percentage points in 2005–06 relative to 2004. The increased cost of oil will be felt particularly in developing and emerging market countries that face external financial constraints.

At what prices will supply meet demand?

According to *WEO* projections, demand for oil will continue to grow robustly with total oil consumption rising from about 82 million barrels a day (mbd) in 2004 to almost 140 mbd in 2030. Advanced economies are the main consumers of oil but will likely account for only 25 percent of the projected increase in world oil demand in 2003–30. Meanwhile, demand from developing and emerging market countries is seen tripling, driven by expanding use of oil in the business and residential sectors and a sixfold increase in vehicle ownership. "What we see is that around $2,500 per capita GDP, people start buying automobiles," Rajan said. "Our sense is that the growth in transport demand will come from the developing countries and emerging markets where people finally have the purchasing power to actually buy cars." With its fast economic growth and large population, China alone will account for almost one-quarter of the increase in world oil demand over the next three decades.

"Part of the reason for the tight oil market is that investment—in exploration, transport, and refining—has been subdued in the past," Rajan said. And securing adequate oil supplies and spare capacity would be one way of reducing price volatility. However, increases in oil production capacity will likely be slow in the short term, because it takes time to bring new production on stream and restrictive regulatory frameworks prevent investment from taking off quickly. The long term depends mainly on the strategy of the Organization of the Petroleum Exporting Countries (OPEC), which currently produces 40 percent of total world oil output and owns about 70 percent of the extractable reserves. Because of OPEC's market power and the costs of building new capacity, the *WEO* suggests that OPEC is unlikely to raise production at a fast pace. Compared with prices over the past two decades, long-term oil prices will be considerably higher—between $39 and $56 per barrel in 2003 dollars.

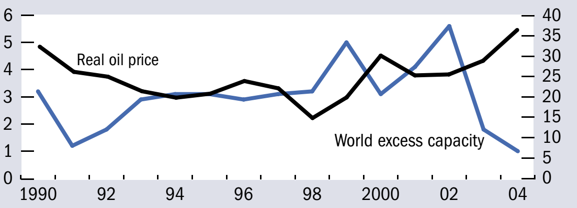
Preparing for the risks

To reduce the macroeconomic risks arising from oil price volatility, the *WEO* proposes policy steps in several areas. Greater oil market transparency, especially through better timeliness and quality of data on oil demand, supply, and inventories, would reduce uncertainty and volatility in the market. Obstacles to investments in the oil sector need to be reduced, while efforts to slow the growth of oil consumption should continue. Countries highly dependent on oil imports should maintain adequate emergency stocks to safeguard against potential supply disruptions. Finally, consumers and producers should engage in a more intensive dialogue about expected market developments and policies to reduce the perceived risks of tight oil supplies and help avoid policy actions by importers to curb long-term oil demand.

The IMF staff report *Oil Market Developments and Issues* also identified general principles that should guide a country's policy responses, although each country will need to take into account specific circumstances.

Oil market as a source of shocks

Periods of low spare capacity tend to be associated with rising and volatile prices.



Data: International Energy Agency; U.S. Department of Energy; and IMF staff calculations.

Ministers seek to step up poverty reduction efforts

There was broad agreement at the Spring Meetings of the IMF and the World Bank to ratchet up efforts to help low-income countries make greater strides in reducing poverty and making progress toward the 2015 Millennium Development Goals (MDGs).

The IMFC agreed on key elements of the way forward for the IMF's financial engagement with low-income countries. First, the IMF's Poverty Reduction and Growth Facility (PRGF) should be more strongly aligned with national poverty reduction strategies, underpinned by more extensive analysis. Second, adequate financing of the PRGF should be secured to meet future demands as should financing of other IMF instruments to assist low-income countries, including helping them deal with shocks. Third, work should continue on a policy monitoring arrangement, which would enhance the IMF's signaling role for countries that do not need or want IMF financing.

The 2005 *Global Monitoring Report* by the IMF and World Bank (see page 110) emphasized the broad priorities for moving closer to the MDGs: achieving macroeconomic stability, including better expenditure management and composition; and strengthening institutions and policies, removing regulatory constraints, and improving weak infrastructure to invigorate the private sector and encourage a wider range of profitable opportunities.

The general issue is how can we finance the next stage of multilateral debt relief, what are the mechanisms by which we can deal with the debts that are owed to the IMF, the African Development Bank, and the World Bank.

—Gordon Brown

IMF Managing Director Rodrigo de Rato stressed that a vibrant private sector is essential for the kind of sustained high growth that low-income countries need. "We are more and more advising our low-income members to develop homegrown strategies to reduce poverty, and to include very ambitious and bold reforms that allow their private sectors and international capital to be part of the solution," he told the press. The *Global Monitoring Report* further stressed the need to double the amount of official development assistance reaching the poorest countries, dismantle barriers to trade, improve market access, and reach a timely conclusion of the Doha Round.

Finding solutions

There was much discussion on the way forward on debt relief at the Spring Meetings. The IMFC noted progress under the Heavily Indebted Poor Countries (HIPC) Initiative, but also encouraged countries to take the necessary actions to benefit from the Initiative and urged creditors to participate fully. However, to preserve the potential benefits of debt relief, especially in light of many low-income countries' ongoing financing needs, it will be critical to help countries avoid excessive borrowing. In this regard, the IMFC noted its support for the joint IMF–World Bank framework to help low-income countries achieve and maintain debt sustainability.

The Group of Seven countries, meanwhile, reiterated their commitment to further debt relief for low-income countries—as much as 100 percent, without reducing the resources available to the poorest countries. "For the relief of poverty, we agreed on the importance of moving further and faster on debt relief, and that there will be more funds needed additional to those that exist at the moment to achieve a lasting exit from debt for the poorest countries," said IMFC Chair Gordon Brown, U.K. Chancellor of the Exchequer.

Several debt relief proposals are on the table, ranging from total debt cancellation to writing off debt servicing. Initiatives on how to finance further debt relief and development aid also vary from providing grants to establishing special funds to introducing global taxes to using IMF gold reserves. "The general issue is how can we finance the next stage of multilateral debt relief, what are the mechanisms by which we can deal with the debts that are owed to the IMF, the African Development Bank, and the World Bank," Brown told the press.

However, policymakers did not agree on the way forward and Brown said at the conclusion of the IMFC meeting that he expected the Group of Seven to announce specifics at its summit this July in Gleneagles and to reach a final agreement at the UN Millennial Summit in New York in September. Policymakers concurred in the IMFC communiqué that "possible further debt relief from the IMF should be part of a wider international effort." De Rato also stressed that a potential decision regarding the use of IMF gold reserves for debt relief should be "part of a much broader approach" as low-income country debt to the IMF is below 20 percent of total debt. In 1999–2000, the IMF used off-market gold transactions to finance its participation in the enhanced HIPC initiative. However, in their statements at the IMFC meeting, many governors voiced opposition to IMF gold sales. ■

Global Monitoring Report 2005

MDGs pose daunting challenges, require urgent action

The joint IMF–World Bank *Global Monitoring Report 2005: From Consensus to Momentum* warns that without bold, tangible action, the Millennium Development Goals (MDGs) will be seriously jeopardized—especially in sub-Saharan Africa, which is off track on all goals. What is at stake, the report underscores, is the opportunity for hundreds of millions of people to escape poverty, disease, and illiteracy, and in so doing boost prospects for long-term global security and peace.

Five years ago, 189 countries signed the Millennium Declaration, an agreement that spelled out a set of targets—the MDGs (see box below)—that, if achieved by 2015, would represent substantial progress in reducing poverty and promoting sustainable development. Clearly, if these goals are to be reached, developing countries, developed countries, and international financial institutions all have to take on added responsibilities and momentum must be sustained. How are these actors delivering on their commitments? The *Global Monitoring Report* tracks progress with policies and actions needed to meet the MDGs. This year's report, the second in an annual series, pays special attention to sub-Saharan Africa, which is the region facing the stiffest challenges and the one farthest from achieving the MDGs.

Daunting challenges, grounds for hope

With only a decade remaining, progress toward the MDGs has been slower, and more uneven across regions, than originally envisaged. Risks of falling short are greatest for the human development goals, with the gravest prospects in the area of health. Based on current trends, most countries will not meet the goals to reduce child mortality by two-thirds and maternal mortality by three-fourths. Substantial increases in the supply of teachers, doctors, nurses, and community health workers are needed. Africa, for example, needs to triple its health workforce—adding one million—by 2015.

Prospects are somewhat brighter in education. But in three of the six developing regions the pace of progress has been too slow to attain the goal of universal primary school completion. Although significant progress has been made in reducing gender disparities in education, again half of the regions will not achieve the goal of gender equality in primary and secondary education by the end of 2005. Prospects for achieving gender equality in tertiary education by 2015 are even less encouraging.

At the launching of the report, lead author Zia Qureshi, of the World Bank, underscored that "behind these cold statistics on the MDGs are real people, and lack of progress has tragic and immediate consequences. Every week in the developing world, 200,000 children under five die of preventable diseases—a tragedy on the scale of the recent Asian tsunami that repeats itself every week. In sub-Saharan Africa alone, 2 million people will die of AIDS this year, and 115 million children in developing countries are not in school."

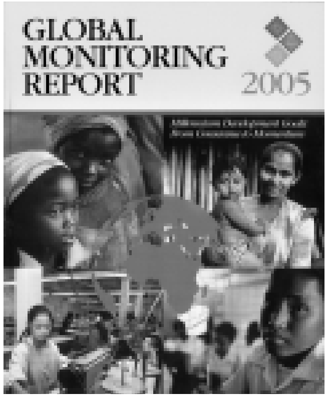
The good news is that global prospects for achieving the first MDG—halving income poverty between 1990 and 2015—are promising. Due largely to rapid progress in China and India, East Asia has already achieved the income poverty MDG, and South Asia is on target. A particularly striking example is Vietnam, a low-income country that reduced the incidence of poverty from 51 percent in 1990 to 14 percent in 2002. Most other developing regions are also making steady progress and are expected to achieve the goal or come close—though some countries will fall short in every region. In sub-Saharan Africa, where the incidence of poverty actually rose between 1990 and 2001, the prospects are much bleaker. But there is hope: even in many lagging countries, progress is being made and the ground is being laid for better performance. In sub-Saharan Africa, for example, 12 countries are currently experiencing growth spurts above the trend for the region, with average GDP growth over the last decade of 5.5 percent or more.

UN Millennium Development Goals

(1) Between 1990 and 2015, halve the proportion of people whose income is less than $1 a day and the proportion of people who suffer from hunger.
(2) Achieve universal primary education by 2015.
(3) Eliminate gender disparity in primary and secondary education, preferably by 2005, and in all levels of education by 2015.
(4) Between 1990 and 2015, reduce the under-5 mortality rate by two-thirds.
(5) Between 1990 and 2015, reduce the maternal mortality rate by three-fourths.
(6) By 2015, halt and begin to reverse the spread of HIV/AIDS and halt and begin to reverse the incidence of malaria and other major diseases.
(7) Ensure environmental sustainability by integrating the principles of sustainable development into country policies and programs and reversing the losses of environmental resources.
(8) Develop a global partnership for development.

Higher growth vital

What can be done to generate the required momentum and broaden progress in achieving the MDGs? The report points to the essential role of strong economic growth. Sub-Saharan Africa alone needs to almost double its current growth rate to an average of about 7 percent a year over the next decade. But as Mark Plant, Senior Advisor in the IMF's Policy Development and Review Department, noted, "There is no blueprint. Each country's unique circumstances mean that it must prepare its own poverty reduction strategy."



To this end, the report calls on ***developing countries*** to take the lead in articulating and implementing strategies that substantially accelerate progress. This means that developing countries must deepen policy and institutional reforms aimed at strengthening macroeconomic management, promoting private sector activity, and strengthening public sector governance.

For sub-Saharan Africa, where macroeconomic policies are particularly weak, Plant emphasized three priorities:

- ***Strengthening macroeconomic management***, especially of budgets. More budgetary space needs to be created for social expenditures, especially for health care and education, but this has to be done responsibly. It is critical that spending be directed to high-quality projects, recurrent costs fit in future budgets, and domestic budget deficits do not get out of control. Despite recent increases in the share of expenditures devoted to social sectors in Africa, there is still considerable room for improvement.
- ***Creating a better climate for private sector activity.*** What is key here is removing excessive regulation and strengthening institutions that help frame private activity—like those granting licenses and property rights. On most indicators compiled by the World Bank's recent "Doing Business Report," African countries rank below other regions.
- ***Improving economic governance***. It will also be important to upgrade public sector management, control corruption, and make public sector operations more transparent. In Africa, the challenge will be to translate recent improvements in political governance into lasting improvements in the operations of economic institutions, like customs agencies and ministries of finance.

Aid can do only so much

Developed countries must do their part, too. The *Global Monitoring Report* urges developed countries to bolster their efforts and live up to the commitments they made at Monterrey in 2002. Providing more and better aid is an important part of such efforts. Official development assistance must at least double in the next five years to support the MDGs, particularly in low-income countries and sub-Saharan Africa, with the pace of the increase aligned with recipients' absorptive capacity. In 2003, official aid flows rose by \$10.7 billion, to \$69 billion. If commitments made by donors at or since the Monterrey Conference are realized, total official aid could rise to \$100 billion by 2010. But a big push on aid is not the sole answer. Plant cautioned that while higher external assistance will be part of any country's package, the provision of aid, by itself, is not a growth strategy. In fact, evidence suggests that the long-term impact of aid on growth tends to be relatively small.

International development policy needs to move beyond aid to include not only trade policy reform but also other policies that affect private capital flows, knowledge and technology transfer, security, and the environment. The report also recommends ways in which support provided by international financial institutions can be strengthened and sharpened (see box below). ■

Agenda for action

To accelerate progress, the *Global Monitoring Report 2005* proposes a five-point agenda:

Ensure that development efforts are country-owned. Scale up development impact through country-owned and country-led poverty reduction strategies;

Improve the environment for private sector–led economic growth. Strengthen fiscal management and governance, ease restrictions on the business environment, and invest in infrastructure;

Scale up delivery of basic human services. Rapidly increase the supply of health care workers and teachers, provide larger and more flexible and predictable financing for these recurrent cost-intensive services, and strengthen institutional capacity;

Dismantle barriers to trade. Pursue ambitious reforms in the Doha Round, including major reform of agricultural trade policies, and also increase "aid for trade"; and

Double development aid in the next five years. In addition, improve the quality of aid, with faster progress on aid coordination and harmonization.

African finance ministers' press briefing

More open markets, greater aid needed for Africa

Africa needs expanded trade opportunities, more technical assistance (particularly in rebuilding war-damaged economies), and faster debt relief, said four African finance ministers—Equatorial Guinea's Marcelino Owono Edu, Lesotho's Timothy Thahane, Senegal's Abdoulaye Diop, and Sierra Leone's Joseph Bandabla Dauda—in a wide-ranging press briefing on April 17, 2005, that highlighted the region's progress, prospects, and constraints.

Eugene Salazar/IMF

Finance ministers (from left to right) Marcelino Owono Edu (Equatorial Guinea), Timothy Thahane (Lesotho), Abdoulaye Diop (Senegal), and Joseph Bandabla Dauda (Sierra Leone) brief the press.

The importance of expanded markets for Africa's exports and the need to diversify their economies featured prominently in the opening remarks of several speakers. Thahane highlighted Lesotho's experience, where the end of special trade preferences under the multifiber agreement means that his country and other low-income countries that had expanded their textile sectors now face serious transition challenges. The ability to attract and keep investment and overcome impediments posed by poor infrastructure will be crucial in the region's efforts to develop new products and identify new markets for export, he said.

Diop took the lead in urging the IMF to take a more active role in the trade liberalization issues related to the Doha Round of multilateral trade negotiations, particularly since developed countries have not responded to calls by developing countries and multilateral organizations to remove agricultural subsidies and other trade-distorting policies. Thahane underscored that once countries choose to pursue a private-sector, export-led growth strategy, the quality of the investment climate becomes crucial and here "the role of multilateral institutions and our partners becomes extremely important."

Debt needs urgent attention

The finance ministers stressed that debt remains a major issue. Diop pointed out that even many of the countries that have reached the completion point of the Heavily Indebted Poor Countries (HIPC) Initiative are still heavily indebted. Various proposals to reduce debt and debt servicing are on the table, the ministers said, but from their perspective the key elements now are greater speed in addressing the issue and mobilizing additional resources. "The important thing is not to theorize about initiatives—we have to implement them," Diop emphasized. Thahane agreed, adding that with critically needed resources being diverted to debt payments, the key now is to "find a compromise and move quickly."

The ministers also renewed calls for greater voice and participation of African countries in the IMF. Diop noted that the 44 African countries, most of which have IMF-supported programs, account for only 4.4 percent of the votes at the IMF Executive Board. Thahane said IMF Managing Director de Rato indicated, in his meeting with the finance ministers, that ownership of the development processes in Africa requires that the IMF and the World Bank have exposure to African voices and experience. But Thahane acknowledged, as de Rato had, that this is a political issue whose fair and effective resolution will be up to the member countries themselves.

IMF assistance

As for postconflict countries, Dauda, drawing on Sierra Leone's experience, urged that these countries be granted "more flexible access to HIPC and Poverty Reduction and Growth Facility resources." He emphasized the importance of a proactive approach and the need to coordinate with the World Bank and other international organizations, describing the early provision of technical assistance as critical and asking the IMF to establish additional Regional Technical Assistance Centers in the region. Owono Edu noted that his country, Equatorial Guinea, is exploring whether IMF technical assistance can help it comply with the Extractive Industries Transparency Initiative. ■

The full transcript of the African Finance Ministers' Press Briefing is available on the IMF's website (*www.imf.org*).

Africa's prospects improve, but MDGs remain out of reach

"Real GDP growth in sub-Saharan Africa rose in 2004 to an eight-year high of 5 percent, while average inflation fell to below 10 percent for the first time in almost 25 years," Abdoulaye Bio-Tchané, IMF African Department Director, told reporters on April 14 in Washington, D.C. Commenting on the findings of the Spring 2005 issue of the *Africa Regional Economic Outlook*, he also noted that growth continued to be particularly strong in African oil-producing countries last year, averaging 6.9 percent. Despite global oil price hikes, many oil-importing countries also performed well, with more than one-third of them growing at rates exceeding 5 percent. For much of the region, however, growth still fell short of the rate needed to reach the Millennium Development Goal of halving income poverty by 2015 relative to 1990.

Macroeconomic policies contributed significantly to the region's overall robust growth performance, according to the report. In oil-importing countries, the governments took appropriate steps such as tightening fiscal policies in response to the oil price shock. At the same time, these countries benefited from strong increases in prices of metals, diamonds, and food, combined with higher import demand in advanced economies.

For the region as a whole, the report projects continued strong growth this year, averaging 5 percent, and subdued inflation overall (see table). Among the downside risks to growth in 2005, however, are lingering conflicts in Côte d'Ivoire and the Great Lakes region, record low world cotton prices, the recent removal of the remaining textile quotas in industrial countries, and the vulnerability of many countries to drought and other natural disasters.

The 30 percent drop in the world cotton price over the past year could cause considerable declines in export earnings in a number of countries, including Benin, Burkina Faso, Mali, and Togo, where cotton production employs as much as one-third of the population. With cotton prices unlikely to rebound strongly any time soon, the worst-affected countries need more donor support to avert worsening poverty and cushion the impact while they implement critical structural reforms to improve the cotton sector's efficiency and competitiveness. At least five countries—Cape Verde, Lesotho, Madagascar, Mauritius, and Swaziland—will need to respond to the immediate impact of abolished textile quotas by adopting an appropriate mix of macroeconomic policies to improve export competitiveness while rigorously pursuing structural reforms to remove impediments to trade expansion.

Good prospects for sub-Saharan Africa

Strong economic performance is expected to continue.

	2002	2003	2004	2005[1]
	(annual increase, in percent)			
Real GDP	3.5	4.1	5.0	5.0
Oil producers	4.1	8.0	6.9	6.8
Non-oil real GDP	4.1	3.3	4.4	4.6
Consumer prices (average)	12.5	13.7	9.1	9.2
Oil producers	18.6	17.0	12.9	11.1
Per capita GDP	1.1	1.6	2.7	2.7

[1]Figures for 2005 are projections.
Data: IMF, *Africa Regional Economic Outlook*, April 2005.

Improved investment climate is key

In the coming years, the region's most critical challenge, the report said, will be to sustain and accelerate economic growth. Real per capita income, which increased by a modest 2.7 percent last year, remains little changed from the mid-1970s. Growth is more likely to be sustained if it is driven by higher productivity and investment rather than by temporary employment increases. While total investment has not increased significantly in the region's fast-growing economies (excluding Equatorial Guinea), it is encouraging that total factor productivity growth has improved strongly for the first time since the 1960s. A number of countries have succeeded in sustaining higher growth rates over the past decade through policy improvements. African countries must now implement further macroeconomic and structural reforms to boost investment and trade. Improving the investment climate is a key priority.

Trade within Africa remains low, and the region is falling further behind the rest of the world in terms of its share of both overall trade and foreign direct investment. Bio-Tchané emphasized that "strong trade expansion must be an integral part of sustainable growth." Sub-Saharan Africa countries need to reduce trade barriers on a broad, nondiscriminatory basis—including through strong commitments to trade liberalization in the Doha Round of multilateral trade negotiations. This should be complemented by reductions in transport and border-crossing costs, improvements in infrastructure, and upgraded workers' skills. Countries can take early action to compensate for potential revenue losses from trade liberalization by strengthening their capacity to mobilize domestic tax revenue. And, as African authorities have themselves recommended, greater effort must be made to streamline the existing 30 regional trade organizations. ■

The full text of the *Africa Regional Economic Outlook* is available on the IMF website (*www.imf.org*).

Country focus

Brazil—Achieving its vast potential

Brazil's announcement in March 2005 that it would not renew its borrowing arrangement with the IMF marks an important milestone in what has been a remarkable economic journey. After its recovery from a crisis in 1999, Brazil once again faced turbulent market conditions in 2002, when investors—nervous after Argentina's default on its public debt the year before, and unsure what to make of presidential candidate Luiz Inácio Lula da Silva—began selling off Brazilian debt. A loan of unprecedented size, agreed to with the IMF at great speed in September 2002, shortly before Lula's electoral victory, helped Brazil weather the storm. Since then, the economy has mounted a strong recovery, with sustained growth in prospect. Camilla Andersen of the IMF Survey *spoke with Charles Collyns and David Owen of the IMF's Western Hemisphere Department.*

IMF SURVEY: Has Brazil's impressive recovery been driven by external or domestic factors?

COLLYNS: Certainly Brazil has benefited from a growing world economy. Rising commodity prices have boosted its exports, and low U.S. interest rates have led to lower spreads on emerging market debt and high global liquidity. But, more important are the sustainable macroeconomic policies that Brazil has established. A major trigger of its current strong cyclical recovery has been a substantial cut in interest rates, made possible by the credibility of its inflation-targeting regime. Also key to increasing confidence was the government's strong commitment to fiscal discipline, notably its successful pursuit of a high primary surplus.

IMF SURVEY: Brazil has grown strongly before, only to see growth falter and inflation pick up. Has the economy finally reached a turning point?

OWEN: We do see encouraging signs of a structural improvement in performance: macroeconomic volatility has been reduced substantially, and exports have been very strong. Previous recoveries often ended because of external constraints. Strong export performance gives us hope that this will not happen this time around. Also, the cumulative effects of structural reforms—many of which have focused on improving the business environment—have encouraged a strong rebound in domestic investment. As a consequence, the IMF is now projecting sustained growth of 3–4 percent a year.

IMF SURVEY: You have cited the role of inflation targeting. Brazil also introduced a flexible exchange rate in 1999. How important have these reforms been?

COLLYNS: The reforms have been key to allowing Brazil to integrate more fully into the world economy with confidence. And it is not just the policy framework. Consistent implementation over the past five years by two different governments has been crucial. Inflation targeting is fine in theory, but to work well, it has to be implemented resolutely and transparently. And since it is easier to implement such a framework when you are reducing interest rates, questions about the credibility of a regime often linger until the economy has gone through a full cycle. The Brazilian central bank has clearly demonstrated its willingness to raise interest rates on at least three occasions: first, immediately after the introduction of inflation targeting; then, during the turbulent situation in 2002; and, more recently, as it has raised rates in response to domestic inflationary pressures. These steps have helped establish the central bank's credibility.

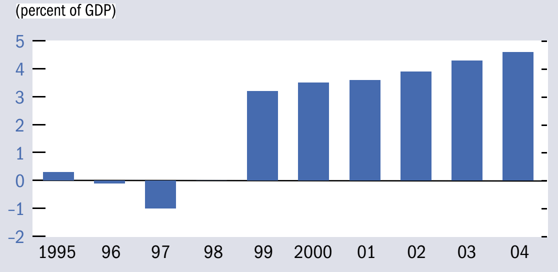
IMF SURVEY: Brazil's debt has gone down, but is it sustainable?

OWEN: Vulnerabilities remain, but a strong fiscal policy has made the debt dynamics sustainable. Our projections show a continuing decline in the debt-to-GDP ratio to reach the average for investment-grade emerging market economies within the next few years. This lowering of the debt ratio would consolidate Brazil's position in emerging markets, reduce risk spreads, allow Brazil's debt to be ranked as investment grade, and provide room, eventually, for a countercyclical fiscal policy to ease economic downturns.

The composition of debt also matters. Until recently, a substantial portion of Brazil's debt was linked to the exchange rate. The authorities have since reduced this amount significantly. A higher proportion is, however, still linked to short-term interest

Discipline does it

Brazil has been running a substantial primary fiscal surplus.



Data: Central Bank of Brazil.

rates. In the future, the government intends to further raise the fixed-rate component to make the debt less sensitive to financial market shocks.

Another area of improvement is international reserves, which have been increasing substantially in recent months. Continued steps to build reserves will help to bolster confidence further.

IMF SURVEY: The IMF has also raised concerns about spending.

OWEN: Brazil has achieved its fiscal adjustment largely by raising revenues. There is a growing consensus in the country that the tax burden is now high, so it is absolutely critical to look for ways to control expenditure, including by looking at its composition. Expenditure has been restrained in recent years by cuts in discretionary spending. Greater budget flexibility could help provide more resources for priorities such as infrastructure and social spending and allow for better-quality fiscal adjustment.

IMF SURVEY: Brazil has been underinvesting in infrastructure for years. How can it boost investment and still meet its fiscal objectives?

OWEN: Brazil is participating in an IMF-led pilot project to help strengthen the quality of its public infrastructure spending, consistent with continued prudent fiscal management. In addition, and to really make a difference, Brazil will need to secure more private sector involvement in infrastructure spending. In 2004, Congress approved legislation on public-private partnerships, and a number of these projects are expected to be launched this year.


Eugene Salazar/IMF

Collyns: "The Brazilian experience has a lot to teach the IMF and the rest of the world."


Eugene Salazar/IMF

Owen: "The IMF's willingness to take calculated risks—to agree to a program even in the face of political uncertainty—has been vindicated."

IMF SURVEY: Once a relatively closed economy, Brazil has seen its exports increase dramatically. How did this change come about?

COLLYNS: In the 1960s and 1970s, Brazil focused on building an industrial base through import substitution. Since then, inspired by Asia's export-led development, it has turned to an outward-looking strategy. But while Brazil liberalized its trade regime in the early 1990s, its overvalued exchange rate discouraged exports. More recently, a tighter fiscal policy and greater exchange rate flexibility have improved Brazil's external competitiveness, laying the basis for rapid export growth. And Brazil's strong performance in the past two years is not just in the commodities sector. It has one of the highest proportions of manufacturing exports to GDP in Latin America, and has been able to penetrate a wide range of markets. This success has, in turn, influenced attitudes toward trade liberalization. Policymakers now recognize that it will be to Brazil's tremendous advantage if the Doha trade round succeeds, particularly if it includes a significant increase in access for agricultural products to industrial country markets.

IMF SURVEY: Poverty and social inequality persist despite the recent growth. What can the government do?

OWEN: Growth will be important, but it is not enough on its own. Targeting resources to the people who really need them will be key. One important element is to channel more resources to specific poverty alleviation programs. The government's program, *Bolsa Familia,* brings together all the targeted benefits under a single umbrella.That is a very positive development, but the quality of spending in sectors like health care and education must also be improved.

COLLYNS: Brazil has been one of the leaders in Latin America in designing social programs that do not just transfer money to poor people but also address the roots of poverty by tying the resource transfers to participation in health care and education programs that boost overall human capital.

IMF SURVEY: Labor market reform is seen as essential for lower unemployment and higher growth and for reducing the informal economy. What measures would the IMF recommend?

COLLYNS: One of the remarkable features of Brazil is the size of the informal economy; it currently employs more than 50 percent of the labor force and this number is rising. This has a number of negative consequences. First, it means that the normal protection to workers afforded by labor law is not extended to a large part of the workforce. Second, it reduces incentives for employers to train their employees. And, third, it erodes the tax base. In addition, the wage bargaining framework in the formal sector is very heavily regulated. The IMF's advice on labor market reform builds on recommendations that many others, including the World Bank and the ILO, have made. We would like to see greater flexibility in wage bargaining and a reduced tax burden on labor, as high taxes discourage employment. There is also considerable scope for making employee protection schemes more efficient. A well-designed labor market reform can benefit all parties.

Mauricio Lima/AFP

Brazil's exports of aircraft are nearly double its exports of coffee.

IMF SURVEY: How important has IMF financing been to Brazil's recovery?

COLLYNS: The IMF played a very important role in supporting the government's strong policies during a difficult time. I emphasize "supporting" because the Brazilian authorities have maintained very strong ownership of their policies. Our role has basically been to provide financing and reassure the markets. Initially, Brazil drew on IMF resources to supplement its reserves, but from the fall of 2003 until the arrangement expired in March of this year, it treated the loan as precautionary. During this period, the IMF continued to play an important role in providing a safety net. When the loan expired, the authorities decided they no longer needed an IMF program. The transition at the end of the program was extremely smooth, with no questions asked by the financial markets, a tribute to their confidence in the government's macroeconomic policies.

IMF SURVEY: What can other emerging market countries learn from Brazil's experience?

COLLYNS: I would emphasize that successful macroeconomic policymaking depends on having strong institutions. Brazil's success is the result of hard work over many years by successive governments to build effective institutions.

The other lesson is that it is perfectly feasible to combine sound macroeconomic management with policies that address inequality and poverty. In fact, the two reinforce each other: good macro policies improve confidence, lead to lower interest rates, encourage growth, and therefore provide more employment and resources for social programs. Higher employment and well-funded social programs then, in turn, contribute to economic success by improving human capital and generating political support for sound economic policies. Brazil's government has shown us that there is an important synergy there and that holds a lesson for other governments in Latin America and elsewhere.

IMF SURVEY: What can the IMF learn from its experience of lending to Brazil?

OWEN: When a country has strong ownership of its economic policies, an IMF-supported program can succeed without extensive policy conditionality. In fact, the conditions attached to Brazil's loan were designed to closely match the authorities' own policy agenda. I also think that the IMF's willingness to take calculated risks—to agree to a program even in the face of political uncertainty—has been vindicated.

IMF SURVEY: Where will Brazil be five years from now?

COLLYNS: People have long called Brazil the perennial country of tomorrow—implying that it will never achieve its full potential. I am hopeful that this is no longer true. I am optimistic Brazil will be able to grow fast, address the deep problems of poverty and inequality, and become a major player in the global economy over the next 5 to 10 years. That does not mean it can afford complacency. There has been success, but the government is very aware that it needs to continue to reform the economy. If it manages to make good progress and deepen its agenda, the prospects for Brazil are extremely strong.

IMF SURVEY: On a personal note, what do you take away from the experience of working on a country like Brazil?

COLLYNS: The Brazilian experience has a lot to teach the IMF and the rest of the world. Brazilian policymakers think deeply and are committed to good policies. They are very aware, of course, of the political realities, but they are also determined to do things better. I very much admire them for that. Personally, I learned a lot about how you achieve good policymaking in practice. It's fine to sit in an ivory tower and design elaborate policies, but what matters is how you go out and sell and implement those policies. ■

Reforms and debt relief set stage for accelerated poverty reduction in Honduras

On the basis of strong, recent efforts to boost growth and reduce poverty, Honduras has just reached the completion point in the enhanced Heavily Indebted Poor Countries (HIPC) Initiative. This achievement will allow for a significant and permanent reduction of the country's external debt. In late 2003, the Honduran authorities embarked on an economic program that has sparked a rebound in growth, bolstered its external position, and brought its fiscal deficit under control, while permitting increased public spending on the poorest. Today, with good prospects for a sustained recovery, Honduras is well positioned to make significant gains in reducing poverty.

Honduras's economic prospects have brightened markedly in recent years following more than a decade of weak growth and virtually stagnant GDP per capita. Natural disasters and a deterioration in the country's terms of trade bear some of the blame, but institutional and policy weaknesses also took a toll.

To reverse these trends, the authorities in late 2003 embarked on an economic program that aimed to revive growth and accelerate poverty reduction by ensuring macroeconomic stability, improving the environment for private sector investment, strengthening human capital development and basic infrastructure, and further advancing trade integration. That program, supported by IMF's Poverty Reduction and Growth Facility (PRGF), as well as program loans from the World Bank and the Inter-American Development Bank—is already delivering favorable results. Growth rose close to 5 percent last year; inflation stabilized after drifting up in 2004 as a result of rising oil prices; and the fiscal accounts improved significantly. In an important break with its past, Honduras also managed to control its wage bill successfully, which permitted a significant reduction in the fiscal deficit while leaving room for increased anti-poverty spending and public investment.

Design and ownership of the economic program benefited from extensive public consultations. Wide segments of the society accepted and supported the program as a viable means of boosting growth, reducing poverty, and obtaining debt relief. This broad national consensus also helped sustain momentum during the implementation phase when a surge in oil prices renewed social pressures.

Looking forward, the next challenge for Honduras will be to protect the core elements of the economic program in the lead up to presidential, congressional, and municipal elections in November. Traditionally, maintaining fiscal discipline in the pre-election period has been difficult, but Honduras's political leadership has already indicated its commitment to prudent policies, and the authorities are intensifying their efforts to promote policy continuity during the political transition and beyond.

The reform agenda

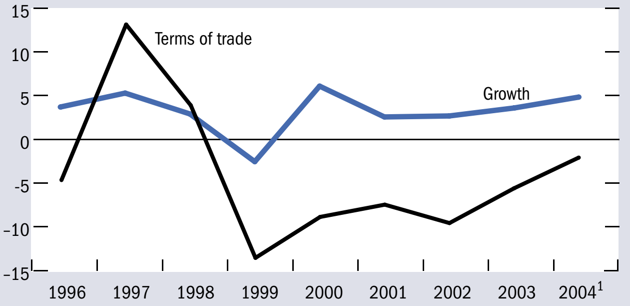
In their efforts to stimulate growth and tackle poverty, the Honduran authorities have relied on a range of macroeconomic policies and structural reforms, and on intensified and more effective social programs. Among the key fiscal measures implemented in 2004 were a new framework for public sector wages and a range of tax-related measures designed to strengthen revenue, bolster the legal framework through changes in the tax code, and create tax courts. In the monetary area, the Honduran central bank is modernizing its policy instruments with technical assistance from the IMF. Substantial progress has also been made to ensure the health of its financial sector through an improved regulatory framework and supervisory regime.

On the trade front, the Honduran legislature, with broad support from the main political parties, recently ratified the Central American Free Trade Agreement (CAFTA). The authorities view CAFTA, which grants permanent access to the U.S. market (the main market for Honduran exports), as essential in maintaining the economy's competitiveness and

Growth is recovering

Improved policies and a favorable external environment have helped boost output.

(annual percent change)



[1]Projection.
Data: Central Bank of Honduras and IMF staff projections.

Good policies have paid off

Higher growth and fiscal discipline have laid the foundation for increased spending on poverty reduction.

	Preliminary 2003	Estimates 2004	Projections 2005
Real GDP growth (percent)	3.5	4.6	4.2
Inflation (eop, in percent)	6.8	9.2	6.9
		(percent of GDP)	
Combined public sector savings	0.5	3.3	4.4
Anti-poverty spending	7.5	8.4	8.7
Combined public sector balance	–5.1	–3.0	–2.5
Central government balance	–6.0	–3.5	–3.0
External current account balance	–4.2	–5.2	–2.5
Gross international reserves[1]	3.7	4.8	4.9

[1]Months of imports.
Data: Central Bank of Honduras and IMF staff projections.

helping offset the impact of the recent expiration of quotas on textiles.

Focus on poverty reduction

Poverty reduction is a core objective of the authorities' program. Although Honduras's poverty rate has fallen somewhat in recent years, it remains very high. Nearly two-thirds of its citizens live in poverty, with an estimated 45 percent in extreme poverty (down from 49 percent in 2000).

To make faster progress in reducing poverty, the government has, in addition to boosting growth and promoting macroeconomic stability, focused on raising poverty-reducing expenditures and improving governance and transparency. To achieve these goals, the authorities have embarked on a participatory anticorruption strategy, and reformed the social security system, and are in the process of strengthening basic health services for the poor, improving the quality of education through a greater emphasis on community participation, and increasing the efficiency and targeting of safety nets. Spending on poverty-reducing measures rose by almost 1 percent of GDP in 2004 (to 8.4 percent of GDP from 7.5 percent in 2003). While the effects of such measures typically take time to be reflected in lower poverty rates, the expectation is that social indicators will improve significantly in the years to come, provided the policy framework is maintained and economic growth remains high.

Reaching the completion point under the Enhanced HIPC Initiative, "represents a milestone in Honduras's journey to achieving rapid and sustainable growth and reducing poverty."

—Markus Rodlauer

HIPC debt relief lends critical support

Reaching the completion point under the Enhanced HIPC Initiative, observed Markus Rodlauer, Senior Advisor in the IMF's Western Hemisphere Department, "represents a milestone in Honduras's journey to achieving rapid and sustainable growth and reducing poverty." Commending the authorities for their efforts to build strong domestic ownership of their economic program, he said "the challenge now is to persevere in the implementation of sound policies and ensure that Honduras's potential for sustained higher growth and further social progress is realized."

Reaching the completion point under the HIPC Initiative sets the stage for a significant and permanent reduction in the country's external debt—a reduction estimated at more than $1.0 billion in nominal terms or $556 million in terms of net present value. In approving this decision, the international community has recognized the progress that Honduras has already made but also signaled its expectation that the country will continue to implement and further strengthen its economic and social policy framework. Experience worldwide has clearly shown that the benefits of debt reduction accrue over time and for only those countries that help themselves by persisting with prudent economic reforms and policies.

Looking forward

Despite considerable progress, Honduras still faces formidable challenges in its road to lasting prosperity for all of its citizens, and the economy remains vulnerable on several fronts. While public finances have improved substantially, they require further strengthening, including by making the current framework for wage policy permanent across the public sector. Reform of the country's financial sector is continuing. Rigorous implementation will be required to achieve the desired strengthening of the sector and to foster the new credit flows needed to sustain rapid growth. Similarly, persistent efforts will be needed to eliminate the remaining barriers to private investment.

And, as mentioned earlier, a more immediate challenge will be to keep the economic program on track through the upcoming election period. If this critical test can be met, it will go a long way toward convincing investors, at home and abroad, that progress is here to stay and that Honduras will provide a stable environment for investment and growth. Given the good prospects for a sustained recovery and the political leadership's commitment to policy continuity, Honduras is well positioned to make significant gains in fighting poverty in the years to come. ■

Luis E. Breuer
IMF Western Hemisphere Department

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

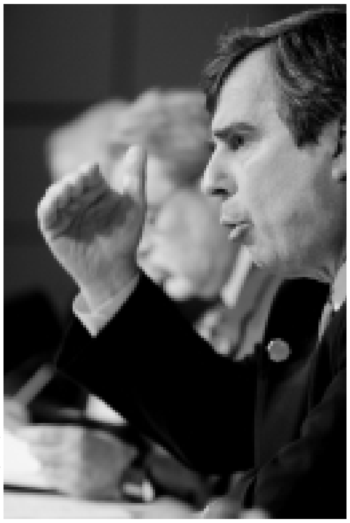
Member	Date of arrangement	Expiration date	Amount approved	Undrawn balance
			(million SDRs)	
Stand-By				
Argentina	September 20, 2003	September 19, 2006	8,981.00	4,810.00
Bolivia	April 2, 2003	April 15, 2005	128.64	26.80
Bulgaria	August 6, 2004	September 5, 2006	100.00	100.00
Colombia	January 15, 2003	May 14, 2005	1,548.00	1,548.00
Croatia	August 4, 2004	April 3, 2006	97.00	97.00
Dominican Republic	January 31, 2005	May 31, 2007	437.80	385.26
Gabon	May 28, 2004	June 30, 2005	69.44	27.78
Paraguay	December 15, 2003	September 30, 2005	50.00	50.00
Peru	June 9, 2004	August 16, 2006	287.28	287.28
Romania	July 7, 2004	July 6, 2006	250.00	250.00
Total			**11,949.16**	**7,582.12**
EFF				
Sri Lanka	April 18, 2003	April 17, 2006	144.40	123.73
Serbia and Montenegro	May 14, 2002	May 13, 2005	650.00	187.50
Total			**794.40**	**311.23**
PRGF				
Albania	June 21, 2002	November 20, 2005	28.00	4.00
Azerbaijan	July 6, 2001	July 4, 2005	67.58	12.87
Bangladesh	June 20, 2003	June 19, 2006	400.33	251.83
Burkina Faso	June 11, 2003	August 15, 2006	24.08	10.32
Burundi	January 23, 2004	January 22, 2007	69.30	35.75
Cape Verde	April 10, 2002	July 31, 2005	8.64	1.26
Chad	February 16, 2005	February 15, 2008	25.20	21.00
Congo, Republic of	December 6, 2004	December 5, 2007	54.99	47.13
Democratic Republic of the Congo	June 12, 2002	June 11, 2005	580.00	53.23
Dominica	December 29, 2003	December 28, 2006	7.69	3.48
Gambia, The	July 18, 2002	July 17, 2005	20.22	17.33
Georgia	June 4, 2004	June 3, 2007	98.00	70.00
Ghana	May 9, 2003	May 8, 2006	184.50	105.45
Guyana	September 20, 2002	September 12, 2006	54.55	27.79
Honduras	February 27, 2004	February 26, 2007	71.20	50.86
Kenya	November 21, 2003	November 20, 2006	225.00	150.00
Kyrgyz Republic	March 15, 2005	March 14, 2008	8.88	7.62
Lao People's Democratic Republic	April 25, 2001	April 24, 2005	31.70	13.58
Mali	June 23, 2004	June 22, 2007	9.33	6.67
Mongolia	September 28, 2001	July 31, 2005	28.49	16.28
Mozambique	July 6, 2004	July 5, 2007	11.36	8.12
Nepal	November 19, 2003	November 18, 2006	49.91	35.65
Nicaragua	December 13, 2002	December 12, 2005	97.50	41.78
Niger	January 31, 2005	January 30, 2008	6.58	5.64
Rwanda	August 12, 2002	August 11, 2005	4.00	1.71
Senegal	April 28, 2003	April 27, 2006	24.27	13.86
Sierra Leone	September 26, 2001	June 25, 2005	130.84	14.00
Sri Lanka	April 18, 2003	April 17, 2006	269.00	230.61
Tajikistan	December 11, 2002	December 10, 2005	65.00	19.60
Tanzania	August 16, 2003	August 15, 2006	19.60	8.40
Uganda	September 13, 2002	September 12, 2005	13.50	4.00
Zambia	June 16, 2004	June 15, 2007	220.10	55.02
Total			**2,909.33**	**1,344.85**

EFF = Extended Fund Facility.
PRGF = Poverty Reduction and Growth Facility.
Figures may not add to totals owing to rounding.
Data: IMF Finance Department.

Some hope from latest data on world poverty

On April 17, the World Bank launched its *World Development Indicators (WDI)*—an annual compilation of data that tracks development trends. An important contribution of the *WDI* since 2000 has been to monitor progress toward the Millennium Development Goals (MDGs) (see box, page 110).

Thanks to strong economic growth in China, India, and other Asian countries, the prognosis is good that the first MDG of halving the percentage of people living on less than $1 a day will be reached by 2015, according to the *WDI*. But a number of countries still face a huge challenge if they are to achieve this, and other, MDGs by the 2015 target date. Additional resources and sustained effort will be needed to reduce maternal and child deaths, boost primary school enrollments, and remove obstacles to greater numbers of girls going to school.



Michael Spilotro/IMF

Bourguignon: "This level of deprivation should serve as an urgent call to action in this Year of Africa."

Four hundred million people were able to climb out of extreme poverty (living on less than $1 a day) between 1981 and 2001, reducing the world's poorest to 1.1 billion people, or 21 percent of the developing world's population, in 2001. But in sub-Saharan Africa, the number of extremely poor almost doubled over the same period, jumping from 164 million in 1981 to 313 million in 2001."This level of deprivation should serve as an urgent call to action in this Year of Africa," said François Bourguignon, the Bank's Senior Vice President for Development Economics and Chief Economist, at the *WDI*'s launch. "Reversing this trend," he added, "will require higher rates of economic growth, with the benefits of growth reaching the poor."

So far, 51 countries have achieved the goal of enrolling all eligible children in primary school, and based on rising enrollment rates, many others will follow suit. But progress has been slow in parts of Africa and Asia, and worldwide, over 100 million children remain out of school—almost 60 percent of them girls.

Only 33 countries are on track to attain the child mortality goal. Almost 11 million children in developing countries die before the age of five, most from readily preventable causes including acute respiratory infection, diarrhea, measles, and malaria. In sub-Saharan Africa, child mortality has fallen only marginally, from 187 deaths per thousand in 1990 to 171 deaths in 2003. Progress toward other health goals has been slow; effective strategies for reducing maternal mortality are well known but hard to implement; HIV/AIDS continues to spread; and malaria and tuberculosis still afflict millions.

Most regions are on track to meet the drinking water target, but only Latin America and East Asia are projected to reach the sanitation target. Poor sanitation and contaminated drinking water remain major sources of disease.

Further progress toward these goals depends on more rapid economic growth, a continued expansion of global trade, and increased aid to developing countries. Better statistics will also help. According to Shaida Badiee, Director of the World Bank Data Group, "building systems to gather and analyze statistics is an essential first step in staying on track to achieve the MDGs. They provide the road map without which the journey cannot begin, much less end with the success we all want." ■

The 2005 *World Development Indicators* includes more than 800 indicators in 83 tables for 152 economies with populations of more than one million and 14 country groups, plus selected indicators for 56 other smaller economies. The report can be accessed on the World Bank's website at *http://www.worldbank.org/data/wdi2005/*.

Laura Wallace
Editor-in-Chief

Sheila Meehan
Managing Editor

Christine Ebrahim-zadeh
Production Manager

Camilla Andersen
Jacqueline Irving
Conny Lotze
Assistant Editors

Maureen Burke
Lijun Li
Kelley McCollum
Editorial Assistants

Julio Prego
Graphic Artist

Graham Hacche
Senior Advisor

Prakash Loungani
Associate Editor

The *IMF Survey* (ISSN 0047-083X) is published in English, French, and Spanish by the IMF 22 times a year, plus *IMF in Focus.* Opinions and materials in the *IMF Survey* do not necessarily reflect official views of the IMF. Any maps used are for the convenience of readers, based on *National Geographic's Atlas of the World,* Sixth Edition; the denominations used and the boundaries shown do not imply any judgment by the IMF on the legal status of any territory or any endorsement or acceptance of such boundaries. Text from the *IMF Survey* may be reprinted, with due credit given, but photographs and illustrations cannot be reproduced in any form. Address editorial correspondence to Current Publications Division, Room IS7-1100, IMF, Washington, DC 20431 U.S.A. Tel.: (202) 623-8585; or e-mail any comments to imfsurvey@imf.org.

To request an *IMF Survey* subscription ($79.00 annually for private firms and individuals) or IMF publications, please contact IMF Publication Services, Box X2005, IMF, Washington, DC 20431 U.S.A.
Tel.: (202) 623-7430;
fax: (202) 623- 7201;
e-mail: publications@imf.org.
The *IMF Survey* is mailed first class in Canada, Mexico, and the United States, and by airspeed elsewhere.