

## IMF provides debt relief for 19 countries

3

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Graeme Robertson/Getty Images

## Executive Board approves loan for Iraq

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In support of Iraq's efforts to secure economic stability and boost growth, on December 23, the IMF's Executive Board approved the first-ever Stand-By Arrangement for the country. The arrangement backs a program designed to help Iraq boost economic growth to 10 percent in 2006, improve governance, and make further progress toward a market economy. Other priorities include a planned expansion of the oil sector, better public services, and strengthened administrative capacity.



Razmi Heidar/AFP

## Weaving a brighter future for India's textile exports

12

The end of textile and clothing quotas a year ago has opened new doors for exporters, but it has also sharply intensified competition. Will India follow China's lead and record significant gains in market share? Not without substantial further reforms, say the authors of a new IMF Working Paper. Temporary constraints on Chinese exports may shield India in the near term, but if it is to truly compete, India must step up reforms and improve the sector's efficiency.



Aiko Datta/AFP

## What the public knows about economic issues

16

Many experts assume that the public knows and cares little about economic issues. Not so, argue Princeton University's Alan Blinder and Alan Krueger. Their survey of U.S. public opinion suggests a keen interest in economic topics and a desire to learn more. The findings formed the basis of a recent American Enterprise Institute panel discussion on the current state of economic education and what it means for policymakers and those in the media who determine what is and is not newsworthy.



Massoud Elomadi/IMF

### IN THIS ISSUE

#### 2 What's on

#### 2 At a glance

#### 3 In the news

*IMF provides debt relief  
Iraq receives new loan  
Brazil and Argentina  
repay IMF loans  
Saudi Arabia*

#### 10 Research

*Credit booms in  
transition economies  
Indian textile and  
clothing exports*

#### 14 Outreach

*Maghreb parliamentarians*

#### 15 IMF Lending

*HIPC*

#### 16 Forum

*Public awareness of  
economic issues*

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3

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transition economies  
Indian textile and  
clothing exports*

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*Maghreb parliamentarians*

#### 15 IMF Lending

*HIPC*

#### 16 Forum

*Public awareness of  
economic issues*

## JANUARY

**9** Conference on Trade and Growth, IMF, Washington, D.C., United States

**13** IMF Book Forum, "Growth and Poverty Reduction in Armenia," Washington, D.C., United States

**19–23** Polycentric World Social Forum 2006, Bamako, Mali

**24–29** Polycentric World Social Forum 2006, Caracas, Venezuela

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

## FEBRUARY

**7–9** United Nations Environment Program Global Ministerial

Environment Forum, Dubai, United Arab Emirates

**10–11** Group of Eight Finance Ministers' Meeting, Moscow, Russia

**16–18** Global Conference on Social Responsibility, Vilamoura, Portugal

**28–March 1** Joint IMF–Africa Institute high-level seminar, "Realizing the Potential for Profitable Investment in Africa," Tunis, Tunisia

## APRIL

**3–5** Inter-American Development Bank Annual Meeting, Belo Horizonte, Brazil

**4–6** 7th International Scientific Conference, "Modernization of Economy and the State," State

University–Higher School of Economics with World Bank and IMF participation, Moscow, Russia

**5–6** World Economic Forum on Latin America, São Paulo, Brazil

**22–23** IMF–World Bank Spring Meetings, Washington, D.C., United States

## MAY

**3–6** Asian Development Bank Annual Meeting, Hyderabad, India

**21–22** European Bank for Reconstruction and Development Annual Meeting and Business Forum, London, United Kingdom

**20–22** World Economic Forum on the Middle East, "Embracing the Future: Unleashing the

Potential of the Middle East, Sharm El Sheikh, Egypt

**22–27** World Health Assembly, World Health Organization, Geneva, Switzerland

**31–June 2** World Economic Forum on Africa 2006, "Going for Growth," Cape Town, South Africa

## JUNE

**19–23** World Urban Forum III, Vancouver, Canada

### IMF Executive Board

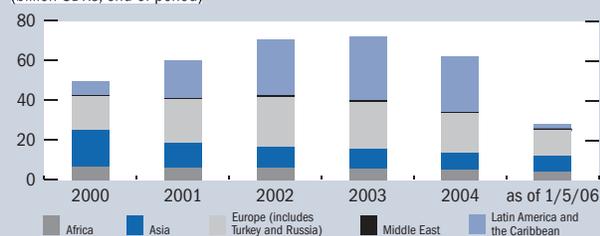
For an up-to-date listing of IMF Executive Board meetings, see [www.imf.org/external/np/sec/bc/eng/index.asp](http://www.imf.org/external/np/sec/bc/eng/index.asp).

## 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 1/05/06)

Nonconcessional		Concessional	
Turkey	10.25	Pakistan	0.99
Indonesia	5.46	Congo, Dem. Rep. of	.55
Uruguay	1.60	Zambia	.41
Ukraine	0.82	Ghana	.29
Serbia & Montenegro	0.61	Tanzania	.24

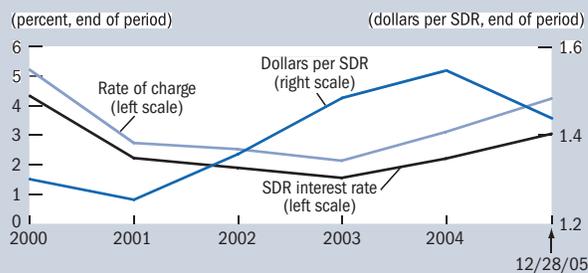
#### IMF available resources

(one-year forward commitment capacity, billion SDRs)



#### 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 provides \$3.3 billion in debt relief to 19 countries

On January 5, the historic Multilateral Debt Relief Initiative (MDRI) became fully effective and, as a consequence, the IMF's Executive Board formally adopted the decisions that provide 100 percent debt relief immediately in the amount of \$3.3 billion to 19 countries. This follows a December 21, 2005 meeting where the Board completed its assessment of the first group of countries eligible for debt relief. The 19 beneficiaries are Benin, Bolivia, Burkina Faso, Cambodia, Ethiopia, Ghana, Guyana, Honduras, Madagascar, Mali, Mozambique, Nicaragua, Niger, Rwanda, Senegal, Tajikistan, Tanzania, Uganda and Zambia. The MDRI will allow these countries to increase spending in priority areas to reduce poverty, promote growth, and make progress toward achieving the Millennium Development Goals.

The IMF Executive Board agreed on the implementation modalities in the IMF of the debt relief proposal advanced by the Group of Eight in June 2005. The initial objective of the proposal was for the IMF, the World Bank's International Development Association, and the African Development Fund to cancel 100 percent of their claims on countries that

have reached, or will eventually reach, the completion point under the enhanced Initiative for Heavily Indebted Poor Countries (HIPC) Initiative. The proposal was modified to meet the requirement, specific to the IMF, that the institution's resources be used in an evenhanded manner across its membership. Thus, all member countries at or below the per capita income threshold of \$380 will be eligible to receive 100 percent debt relief from the IMF's resources. The remaining HIPCs with per capita income above that threshold will be eligible to receive 100 percent debt relief from an existing pool of funds contributed by individual countries and administered by the IMF.

The MDRI was unveiled alongside two other initiatives: the new Policy Support Instrument and a new Exogenous Shocks Facility (see box on page 5).

What follows are interviews with Mark Allen, Director of the IMF Policy Development and Review Department, and Abdoulaye Bio-Tchané, Director of the IMF African Department, and a look at Zambia, one of the countries that will benefit from the debt relief.

### Countries covered by the Multilateral Debt Relief Initiative

Now eligible	Under the "MDRI-I Trust" (per capita income below \$380)	Under the "MDRI-II Trust" (per capita income above \$380)
HIPCs that have reached the completion point	Burkina Faso, Ethiopia, Ghana, Madagascar, Mali, Mozambique, Niger, Rwanda, Tanzania, Uganda	Benin, Bolivia, Guyana, Honduras, Mauritania, Nicaragua, Senegal, Zambia
Non-HIPC countries with per capita income below \$380 and outstanding debt to the IMF	Cambodia, Tajikistan	

Eligible once the HIPC completion point is reached	Under the "MDRI-I Trust" (per capita income below \$380)	Under the "MDRI-II Trust" (per capita income above \$380)
HIPCs (10) have reached the decision point under the Enhanced HIPC Initiative	Burundi, Chad, Democratic Republic of the Congo, The Gambia, Guinea-Bissau, Malawi, São Tomé and Príncipe, Sierra Leone	Cameroon, Guinea
Countries whose eligibility for HIPC assistance needs to be confirmed on the basis of end-2004 debt data	Potentially HIPC-eligible are Central African Republic, Comoros, Côte d'Ivoire, Lao PDR, Myanmar, Togo (Inclusion under one of the MDRI Trusts will be based on per capita income)	

<b>Protracted arrears cases</b>	Liberia, Somalia, Sudan
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### Receiving immediate debt relief

As of December 21, 2005, 19 countries qualified for debt relief under the IMF's Multilateral Debt Relief Initiative.

	Estimated eligible IMF credit outstanding <sup>1</sup>	
	SDRs	U.S. dollars
	(million)	
<b>HIPCs<sup>2</sup></b>	<b>2,203</b>	<b>3,160</b>
Benin	36	52
Bolivia	161	231
Burkina Faso	62	89
Ethiopia	112	161
Ghana	265	381
Guyana	45	65
Honduras	107	154
Madagascar	137	197
Mali	75	108
Mozambique	107	153
Nicaragua	140	201
Niger	78	111
Rwanda	53	76
Senegal	100	144
Tanzania	234	336
Uganda	88	126
Zambia	403	577
<b>Non-HIPCs</b>	<b>126</b>	<b>181</b>
Cambodia	57	82
Tajikistan	69	99
<b>Total</b>	<b>2,330</b>	<b>3,341</b>

<sup>1</sup>Projected credit outstanding at end-2005 resulting from disbursements made prior to January 1, 2005.

<sup>2</sup>Heavily Indebted Poor Countries that had reached the completion point.  
Data: IMF.

## IMF will continue to keep a careful eye on debt sustainability

**M**ark Allen, Director of the IMF Policy Development and Review Department, speaks to the IMF Survey about how the Multilateral Debt Relief Initiative will be implemented and why debt sustainability remains a priority.

**IMF SURVEY:** The IMF's Board approved debt relief for 19 of the 20 countries identified as being eligible. What must Mauritania, which was left out, do to become eligible? And, how long will it take the countries that haven't reached the HIPC [Heavily Indebted Poor Countries] Initiative completion point to qualify for full debt relief?

**ALLEN:** For Mauritania, the Board has asked for a six-month track record of sound economic policies, plus action to strengthen public expenditure management systems and deal with any outstanding data issues with the IMF. The 10 countries that are between the decision point and the completion point under the HIPC Initiative should reach the completion point and, therefore, get full MDRI debt relief sometime in the next couple of years provided that performance is satisfactory. In addition, there are about 13 countries that haven't yet entered into the HIPC process, and thus haven't yet established the track record for reaching the decision point. The process for those countries could take a little bit longer.

**IMF SURVEY:** How is the Fund financing the debt relief?

**ALLEN:** The IMF has largely used its own resources. We had resources in the special disbursement account from the IMF's earlier gold transactions—the so-called off-market gold sales. This money, which belongs to the entire Fund membership, has been used to finance the debt relief for members whose annual per capita income is less than \$380.

In addition, we have used resources that donor countries had previously put in trust to the Fund to provide subsidy resources for PRGF [Poverty Reduction and Growth Facility] operations. These donor resources—which can be used as the donors see fit—are being used to finance debt relief for those HIPCs whose per capita income is above \$380 a year. Part of the agreement with donors was that any shortfall in our concessional resources would be made up. In fact, the G8 [Group of Eight] countries are contributing the subsidy resources we need to maintain our capacity to lend under the PRGF.

**IMF SURVEY:** What is the rationale for choosing a per capita income of \$380 as the threshold level for automatically canceling countries' debt to the IMF?



Michael Shapiro/IMF

Allen: "Debt sustainability is not something you gain once and for all. It's something you need to work at regularly."

**ALLEN:** The rationale was largely a financial one: we had a pool of resources that we could use for the MDRI, and \$380 per capita provided the optimal use of those resources and allowed us to implement a proposal that was very close to the initial G8 proposal without running through too many of our additional financial resources.

**IMF SURVEY:** Does the IMF's approval of the MDRI mean that the World Bank's IDA [International Development Association], and the ADF [African Development Fund] are now able to grant relief?

**ALLEN:** The IDA and the ADF are part of the same initiative, but we're all working under different timetables with different considerations. The IMF had the bulk of the resources it needed to proceed with its role in the operation, and we've moved very quickly to put it in place. We've also been able to take a very recent cutoff date—the start of 2005—and that means we can cover a high percentage of the IMF's claims on countries.

The IDA and the ADF have different issues related to financing and may have different cutoff dates, and later, different implementation dates. We are operationally independent as far as this is concerned. The speed with which the IDA gives its debt relief has no direct implication for our operation, nor does our operation, in any sense, open a door for the IDA. I trust that the judgments we make will be similar. Assessing the 20 countries discussed by the Executive Board has been an exercise in close IMF–World Bank collaboration. We obviously will continue to collaborate with the Bank.

**IMF SURVEY:** Are countries still responsible for the debt service on any debt incurred in 2005?

**ALLEN:** Yes, country borrowing from the Fund in 2005 will not be covered. This initiative covers only that debt owed to

the Fund as of end-2004 and that is still outstanding as of the date the country reaches the HIPC completion point or otherwise qualifies under the MDRI.

**IMF SURVEY: What is the next step for the IMF and its work in low-income countries?**

**ALLEN:** We will continue to make the full range of our instruments available to low-income countries. For all member countries there is the Article IV consultation process, and the PRGF provides important support for a number of these countries that still have large balance of payments needs. Some have reached the point where their balance of payments needs are very small—certainly, the MDRI will have contributed to that situation—but we shouldn't forget that the IMF's debt claims are not the only claims. Low-income countries still have other debt. But for those that no longer require IMF resources, we may remain engaged through the new Policy Support Instrument, or we may just have the annual consultation. It will depend on what is most convenient for the country, bearing in mind the needs of the donor community, which continues to be heavily engaged in all these low-income countries.

### New tools to help low-income countries

Over the past few months, the IMF has introduced several new instruments to expand the range of tools the organization has on hand to assist its low-income member countries. These include the Policy Support Instrument and the Exogenous Shocks Facility.

**Policy Support Instrument (PSI).** In October 2005, the IMF introduced the PSI, which is a new means to help low-income countries that do not need or want IMF financial assistance. In recent years, several low-income countries have made significant progress toward economic stability and have no longer needed financial assistance from the Fund. Nevertheless, they have often still sought Fund advice, monitoring, and endorsement of their economic policies.

The PSI is designed for countries that have achieved a reasonable growth performance, have low underlying inflation and adequate official international reserves, and have begun to establish external and net domestic debt sustainability. To be eligible, countries must be eligible for the IMF's Poverty Reduction and Growth Facility (PRGF), have a poverty reduction strategy in place, and a policy framework focused on consolidating macroeconomic stability with a view to faster growth and poverty reduction. The PSI is voluntary, demand-driven, and supported by strong country ownership. Once approved by the IMF's Executive Board, a PSI provides a visible signal of IMF endorsement of a member's policies.

The PSI is intended to promote a close policy dialogue between the IMF and a member country, provide more frequent IMF assessments of economic and financial policies than are provided

We have also recently put in place the Exogenous Shocks Facility. If member countries that don't have a PRGF arrangement are hit by an external shock and have a balance of payments need, we now have the capacity to lend under this new facility.

Together with the Bank, we will pay particular attention to these countries' debt problems. We hope that the MDRI will have a substantial impact on countries' debt sustainability, but debt sustainability is not something you gain once and for all. It's something you need to work at regularly to ensure that you don't move into another bout of unsustainable borrowing. That is something we are going to need to watch quite carefully, and, along with the Bank, we've been strengthening our analytical framework to do so.

Also, the IMF is currently undertaking a strategic review of its work, including its role in low-income countries. Obviously, we will be looking at the implementation and the impact of the MDRI and these other initiatives in the broader context of this strategic review. The Fund plays an important role—and will continue to do so—in helping these countries deal with their problems. We just hope we're in a better position to do this now because of this debt relief operation. ■

through the regular consultation process, and deliver clear signals on the strength of these policies.

**Exogenous Shocks Facility (ESF).** The ESF, approved by the Executive Board on November 25, 2005, is designed to enhance the IMF's ability to assist low-income members that experience harmful economic shocks beyond their control. It will be established within the Poverty Reduction and Growth Facility (PRGF) Trust. Programs will range from one to two years, and disbursements will have the same interest rate (0.5 percent) and repayment terms (maturity of 10 years) as other PRGF arrangements.

External shocks can inflict serious damage on low-income countries, especially those with less diversified economies and a limited ability to build up reserves. Recent evidence suggests that foreign assistance can be particularly effective following a shock but must be made available quickly. Moreover, the assistance needs to be associated with sound adjustment policies, which would be set out in a program supported by the ESF.

Executive Directors chose not to predefine the shocks that would qualify for assistance under the ESF, although likely candidates are adverse terms of trade movements, natural disasters, and sudden and unexpected drops in demand for exports. The ESF is intended to provide financial support for temporary balance of payments needs, and Directors recognized that PRGF programs remain the main instrument to support members' ongoing policy reforms.

More information about the Policy Support Instrument and the Exogenous Shocks Facility can be found on the IMF's website ([www.imf.org](http://www.imf.org)).

## Africa can reap major benefits from debt relief, new IMF tools

**A**bdoulaye Bio-Tchané, Director of the IMF's African Department, speaks with the IMF Survey about the likely impact of debt relief on the African region.

**IMF SURVEY:** What does Africa stand to gain from the MDRI [Multilateral Debt Relief Initiative], the Exogenous Shocks Facility, and the Policy Support Instrument?

**BIO-TCHANÉ:** These initiatives will enhance the IMF's ability to meet the different needs of African countries. The MDRI is intended to increase the resources available to African and other countries to meet the Millennium Development Goals [MDGs]. Overall, the initiative is expected to write off over \$40 billion of debt to the IMF, the World Bank's International Development Association, and the African Development Fund. With the shocks facility, the IMF now has a new instrument to assist countries in dealing with external and domestic shocks, including natural disasters like droughts. And the Policy Support Instrument—which Nigeria has already used and which Uganda will apply for shortly—will also increase the range of instruments the IMF can use to address the needs of low-income countries.

**IMF SURVEY:** What will recipient countries need to do to make the most of the opportunities that debt forgiveness affords them?

**BIO-TCHANÉ:** The MDRI is clearly linked with the MDGs. It's not by accident that the Poverty Reduction Strategy Paper [PRSP] has been emphasized. Having the PRSP and an effective public expenditure management system in place will help to ensure that the resources freed by the MDRI are used to increase poverty-related expenditure and, in particular, improve health care, education, and rural development.



Bio-Tchané: "Ultimately, the results of all these efforts are in the hands of African countries. It all depends on the policies they put in place."

At the same time, these countries will need to absorb debt relief—and higher aid flows—without damaging or destabilizing their macroeconomic environment and thus hampering prospects for growth and poverty reduction.

**IMF SURVEY:** How quickly can we expect to see changes in Africa, and what form will those changes take?

**BIO-TCHANÉ:** Debt payments to the IMF from the countries that have qualified for the MDRI will be lower. Once their parliaments and governments give their approval, these countries can apply the resources to poverty-related expenditures. It is difficult to estimate precisely the impact of the debt relief, but experience with the HIPC Initiative shows that debt relief has indeed freed resources to fight poverty. For example, prior to the HIPC Initiative, eligible countries were, on average, spending slightly more on debt service than on health care and education combined. This is no longer the case. In these 28 countries, under their recent IMF- and World Bank-supported programs, spending on health care, education, and other social services is, on average, now almost four times the amount of debt-service payments. We expect that further debt relief and additional resources in line with G8 pledges would deepen these effects. But ultimately, the results of all these efforts are in the hands of African countries. It all depends on the policies they put in place.

**IMF SURVEY:** What's next for the IMF's work in Africa?

**BIO-TCHANÉ:** What we've seen in Africa over the past couple of years has been very encouraging. Growth has picked up to an average of 5 percent across the continent, with some countries also doing very well in reducing inflation. This isn't happening by accident, but because most countries are adopting policies to create an environment for the private sector to develop. We want to build on that. Low-income countries have been recognized as central to the IMF's work, as articulated in the Fund's Medium-Term Strategy, and we have expanded the tools available for our work with African countries.

A key policy challenge will be to assist countries in designing macroeconomic policies to facilitate the effective use of debt relief and higher inflows of aid. The recent pledges of the G8 countries to increase aid, particularly for Africa, are very welcome. But African countries can face significant challenges when aid rises. We are committed to playing our part in helping countries make progress toward the MDGs through policy advice to address these challenges. ■

## Zambia to receive \$577 million in debt relief from the IMF

**A**s a result of its overall satisfactory macroeconomic performance, progress in reducing poverty, and improvements in public expenditure management, Zambia has qualified for debt relief under the Multilateral Debt Relief Initiative (MDRI). Its sustained, robust growth over the past five years represents a striking turnaround after more than two decades of decreasing per capita income.

Zambia's economic performance has been underpinned by a marked improvement in public finances. Inflation, although still too high, has moderated, and Zambia's external position has strengthened because of a rebound in copper export receipts and relatively strong growth in non-traditional exports. To tackle poverty, the government has increased its spending on education and health care and established a sound record of implementing its poverty



Copper exports (here to Tanzania) have helped Zambia's economy rebound, and increased spending on education and health care will help tackle poverty.

### Zambia's striking turnaround . . .

Improved public finances have underpinned Zambia's economic performance.

	2001	2002	2003	2004	Est. 2005
	(annual percent change)				
Real GDP	4.9	3.3	5.1	5.4	4.3
Inflation (end of period)	18.7	26.7	17.2	17.5	19.0
Real effective exchange rate	8.5	-5.8	-1.7	8.1	12.2
Broad money	10.8	31.5	23.4	30.2	8.6
	(percent of GDP)				
Overall fiscal balance <sup>1</sup>	-8.1	-6.3	-6.6	-1.7	-2.7
Current account balance <sup>1</sup>	-13.9	-9.2	-9.6	-5.4	-6.0
	(months of imports)				
Foreign exchange reserves	0.8	2.1	1.3	1.2	1.5

<sup>1</sup>Including grants.

Data: Zambian authorities and IMF staff estimates.

### will be aided by dramatically lower debt<sup>1</sup>

Favorable external debt sustainability prospects will help to provide a solid basis for stronger economic performance.

	2005 (Est.)	2006 (Proj.)		2007 (Proj.)
		Before MDRI	After MDRI <sup>2</sup>	After MDRI
	(million U.S. dollars, unless otherwise indicated)			
PPG external debt owed to	3,493	3,594	502	628
IMF	601	635	64	80
International Development Association	2,429	2,499	220	330
African Development Fund	261	272	30	45
NPV of PPG external debt to exports <sup>3</sup>	65.8	63.0	14.1	14.5
Debt service to exports <sup>3</sup>	5.0	3.3	2.5	1.9
PPG external debt to GDP (percent)	50.9	43.1	6.0	7.0
NPV of PPG external debt to GDP (percent)	22.8	19.8	4.4	4.5

Note: PPG = Public and publicly guaranteed; NPV = Net present value.

<sup>1</sup>After assistance under the Heavily Indebted Poor Countries Initiative.

<sup>2</sup>Assuming delivery on January 1, 2006, for the IMF and the African Development Fund, and on July 1, 2006, for the World Bank's International Development Association.

<sup>3</sup>Exports of goods and services for the year under consideration.

Data: IMF staff estimates and projections.

reduction strategy. Improved public expenditure management and more disciplined fiscal policy have contributed to poverty reduction, and the planned further strengthening of public expenditure management systems will be crucial to ensuring that Zambia makes effective use of the resources made available under the MDRI.

Poverty is still deeply rooted and widespread, however, and, although Zambia's prospects for reaching the Millennium Development Goals have improved in recent years, it still faces significant challenges. To accelerate its progress, Zambia needs to boost and sustain pro-poor growth and increase financial and human resources for the social sectors.

Under the MDRI, the IMF is providing 100 percent relief on all outstanding debt to the IMF that Zambia incurred before January 1, 2005. The debt relief will amount to approximately \$577 million, or \$572 million excluding the remaining assistance under the Heavily Indebted Poor Countries (HIPC) Initiative. With additional debt relief expected from the World Bank and the African Development Fund in 2006, Zambia's external debt, which had already been lowered considerably under the HIPC Initiative, would be substantially reduced—from about \$3.5 billion in nominal terms at end-2005 to about \$500 million at end-2006. In net present value terms, the ratio of Zambia's external debt to exports is projected to decline from 66 percent at end-2005 to 14½ percent at end-2006. Zambia's highly favorable external debt sustainability prospects, together with the maintenance of sound economic policies, provide a solid basis for strengthened economic performance over the medium and long terms. ■

## With new IMF loan, Iraq moves closer to wider debt reduction

**O**n December 23, 2005, the IMF's Executive Board approved the first-ever Stand-By Arrangement for Iraq, which is designed to support the conflict-torn country's economic program over the next 15 months. The program envisages a boost in economic growth to 10 percent in 2006, as well as improved governance, and further steps toward a market economy. The Iraqi authorities are treating the \$685 million arrangement as precautionary; they will not draw upon the resources unless they are needed.

In September 2004, Iraq received a \$436 million loan through the IMF's Emergency Post-Conflict Assistance (EPCA) facility. This initial credit was designed to facilitate Iraq's negotiations with its Paris Club creditors over a debt-restructuring agreement that is now in place and to support the nation's economic programs through 2005. A condition for the second stage of debt reduction agreed with the country's Paris Club creditors was for Iraq to secure the Stand-By Arrangement.

IMF Deputy Managing Director Takatoshi Kato said that the Iraqi authorities had been "successful in promoting macroeconomic stability in 2005, despite the extremely difficult security environment." Economic growth, at an estimated 2.6 percent, was modest in 2005, following a rebound of almost 50 percent in 2004. Inflationary pressures moderated, although prices remained volatile, and the projected fiscal deficit was much smaller than expected under the EPCA-supported program, mainly owing to higher-than-projected export prices for crude oil. On the other hand, security con-



Expanding the oil sector is a priority under Iraq's 2006 economic program.

Iraq	2004		2005		2006
	EPCA <sup>1</sup>	Actual	EPCA <sup>1</sup>	Est.	Proj. <sup>2</sup>
	(billion U.S. dollars)				
Exports of oil and gas	16.5	17.8	17.6	22.8	28.7
	(annual percent change)				
Real GDP	51.7	46.5	16.7	2.6	10.4
Consumer price inflation (end of period)	7	32	15	20	15
	(percent of GDP)				
Primary fiscal balance	-41.9	-39.6	-27.3	-10.8	-8.2
Overall external balance	-4.8	6.1	-14.9	4.2	4.0
Total external debt <sup>3</sup>	588.2	308.6	541.3	154.3	125.2
Current account	-17.8	-36.8	-18.2	-14.4	-2.7
	(months of imports of goods and services)				
Gross reserves	2.6	3.2	3.7	3.1	3.6

<sup>1</sup>EPCA = Emergency Post-Conflict Assistance.

<sup>2</sup>Tentative projection, based on Stand-By Arrangement medium-term framework.

<sup>3</sup>Data for EPCA are prior to Paris Club agreement of November 21, 2004.

Data: IMF staff estimates and projections.

cerns and capacity constraints resulted in a slower implementation of structural benchmarks than was envisaged.

The authorities' 2006 program aims to allocate resources toward the planned oil sector expansion, redirect expenditures away from general subsidies toward better public services, and strengthen administrative capacity. The country's fiscal stance in the near term will be driven by reconstruction needs. Kato noted that "a critical component of the overall strategy is to contain expenditures within revenues and available financing by prioritizing expenditures toward reconstruction, controlling the wage and pensions bill, reducing subsidies on petroleum products, and expanding the participation of the private sector in the domestic market for petroleum products, while strengthening the social safety net."

The authorities have recently increased prices of refined petroleum products and will need to press ahead with other structural reforms, including measures to enhance the efficiency and transparency of public financial management and the development of a comprehensive restructuring strategy for the state-owned banks, Kato said. At the same time, the Central Bank of Iraq aims to establish a modern payment system, implement modern supervisory frameworks, facilitate the proper functioning of foreign exchange and money markets, and conduct a monetary policy geared toward ensuring financial stability.

Kato added that "the medium-term outlook for Iraq is favorable, but subject to many risks. A strengthening of the security situation will help the authorities implement the program. Moreover, Iraq remains vulnerable to shocks, particularly those relating to oil production development and oil export price movements." ■

## Brazil and Argentina repay IMF loans early

**B**razil and Argentina have paid in full—and earlier than expected—their entire outstanding obligations to the IMF amounting to \$15.46 billion and \$9.6 billion, respectively. IMF Managing Director Rodrigo de Rato welcomed the December 13 and 15 decisions.

Brazil's decision, de Rato said, reflects the growing strength of the country's external position, "especially continuing substantial trade and current account surpluses and strong capital inflows that have greatly boosted reserves and reduced external debt." More fundamentally, de Rato added, "the excellent track record of policy management by the Brazilian authorities has provided the basis for the consolidation of market confidence, the sustained improvement of macroeconomic performance, and an improvement in the profile of domestic as well as external debt."

The decision made by Argentina's authorities, de Rato said, "reflects their confidence that their external position is suffi-

ciently strong to warrant early repayment." Important challenges and opportunities lie ahead for Argentina, he said, and the Fund looks forward to maintaining a productive relationship with the government. "We remain ready to assist the Argentine authorities in any way that would help them address these challenges," he commented.

Brazil contracted its obligations under a Stand-By Arrangement that the Executive Board approved in September 2002, which was later extended and increased in December 2003. Argentina's obligations stem from Stand-By Arrangements that the Board originally approved in March 2000, January 2003, and September 2003, and include a small amount extended under the Extended Fund Facility approved in March 1992.

Under the original expectations basis schedules, Brazil's final repayments would have taken place in 2007, and Argentina's in 2008. ■

### Favorable developments offer Saudi Arabia chance to strengthen economic foundation

Thanks to record-high oil revenues and prudent macroeconomic management, Saudi Arabia's economy grew by an impressive 5¼ percent in 2004, while inflation remained negligible, the IMF said in its annual economic review. With large current account and fiscal surpluses, reserves increased and government debt declined. The financial sector continued to perform well, and the stock market remained buoyant, reflecting growing confidence. The country has also continued to help ensure oil market stability by increasing oil supplies in line with growing demand and has begun expanding its oil production and refining capacity for the coming years.

Consistent implementation of structural reforms over the past several years has spurred economic diversification and private sector-led growth, creating the basis for more employment opportunities for Saudi nationals and enhancing the economy's resilience to oil price shocks. The IMF Executive Board emphasized that the current favorable economic situation offers an

opportunity to sustain and accelerate this reform momentum with a view to laying a strong economic foundation for future generations. It welcomed the authorities' decision to use a part of the higher oil revenues to boost health and education expenditures, make much-needed improvements in physical infrastructure, and further strengthen the fiscal position through debt reduction. The Board also expressed its appreciation to the Saudi authorities for their significant development assistance to low-income countries.

Looking ahead, the Board encouraged the authorities to contain the growth of recurrent outlays, gradually reduce implicit subsidies for electricity and water utilities, and adjust domestic energy prices broadly in line with international market developments. To foster investment and tap the potential of non-oil sectors, the Board underscored the importance of infrastructure and legislative and regulatory reforms. The strength of Saudi Arabia's financial market will benefit from the ongoing liberalization of the financial system through enhanced competition and could be further enhanced to encourage financial innovation. The Board welcomed the reforms undertaken in the context of Saudi Arabia's accession to the World Trade Organization, which will help create a business environment conducive to more private sector investment. ■

Saudi Arabia	2001	2002	2003	Prel. 2004	Est. 2005
			(percent change)		
Real GDP	0.5	0.1	7.7	5.2	6.2
Real oil GDP	-3.9	-7.5	17.2	5.7	6.8
Real non-oil GDP	3.5	3.7	3.6	5.0	5.9
Consumer price index	-0.8	0.2	0.6	0.3	1.0
			(percent of GDP)		
Fiscal balance (deficit -)	-3.9	-5.9	1.2	9.6	16.8
Current account balance	5.1	6.3	13.1	20.5	31.2

Data: Saudi Arabian authorities and IMF staff estimates.

For more information, please refer to Public Information Notice No. 05/161 (Saudi Arabia) on the IMF's website ([www.imf.org](http://www.imf.org)).

## Credit booms in transition economies: Too much of a good thing?

Over the past few years, bank credit to the private sector has surged in several transition economies in Central and Eastern Europe. While this lending boom may be viewed partly as a welcome catch-up from low levels of bank credit relative to GDP, it also entails risks. Zeroing in on experiences in Bulgaria, Romania, and Ukraine, a recent IMF Working Paper by Christoph Duenwald, Nikolay Gueorguiev, and Andrea Schaechter finds that the surge has helped widen macroeconomic imbalances in Bulgaria and Romania and heighten the risks of financial sector distress in Ukraine. It also finds that policy responses designed to slow credit growth have had mixed success.

During the second half of the 1990s, deep economic and financial crises in Bulgaria, Romania, and Ukraine all but halted financial intermediation. Subsequently, prudent macroeconomic policies spurred a rebound in economic growth, especially growth of profits, and this recovery whetted the appetite for borrowing and improved banks' perceptions of borrowers' creditworthiness. The entry of reputable international banks, along with strengthened central bank regulatory and supervisory frameworks, restored domestic confidence in the banking sector, leading to a quick rise in deposits and pressure to find profitable asset placements. Capital poured in, primarily through the mostly foreign-

owned banking sector, in response to lower country risk premiums and improved business conditions. At the same time, sharply declining budget deficits and ample external budgetary financing limited government paper issuance.

Initially, banks remained risk-averse, maintaining high cash balances in all three countries while also, in Bulgaria, building up net foreign assets and, in Romania, investing mostly in government securities. This cautious approach stemmed from a lack of information (including short credit histories) about prospective domestic borrowers, doubts about contract enforcement, and the loss of a large client base, because state-owned enterprises were no longer deemed creditworthy without state guarantees. However, aided by economic recovery, a return of confidence, strengthened bank balance sheets, and privatization of state banks, the risk-averse behavior gradually gave way to increased domestic lending.

### Taking stock

Increased financial intermediation is usually associated with an increase in economic growth, but rapid credit growth can also pose risks for macroeconomic and financial sector stability (see box). In emerging markets, credit booms typically result not in higher inflation but in current account deterioration and exchange rate appreciation. This has been the case in Bulgaria and Romania where, during the recent credit

### Why worry?

When financing constraints are eased, increased bank lending can stimulate higher investment and consumption, and, ultimately, help raise the standard of living. But a rapid increase in bank lending entails two broad risks: the emergence or worsening of macroeconomic imbalances (macro risk) and a deterioration in bank asset quality that can undermine financial sector stability (credit risk). These two risks, when they materialize, are typically mutually reinforcing, creating boom-bust cycles in credit and asset markets and large swings in macroeconomic fundamentals.

**Macro risk.** Increased credit availability eases liquidity constraints on households and firms, leading to higher consumption and investment. Given short-run supply constraints, this will tend to exert upward pressure on prices and demand for foreign goods, and thus cause a deterioration in the trade balance. Left unchecked, a rapid increase in credit can boost domestic prices and wages—which at an unchanged or appreciating nominal exchange rate could reduce international competitiveness—and heighten external vulnerabilities. A sudden reversal in capital flows

or other external shocks, as well as swift and drastic policy responses, which may become unavoidable, could trigger a hard landing—that is, rising interest rates, slowing growth, declining asset prices, and downward pressures on the exchange rate.

**Credit risk.** Rapid credit growth can trigger banking sector distress through macroeconomic imbalances and deteriorating loan quality. If the rapid expansion of bank loans leads to large current account deficits and is accompanied by fiscal deficits and inflationary pressures, an economy becomes increasingly vulnerable to a hard landing. Whether this hard landing causes any distress for the banking sector will depend on the sector's exposure to those risks and its financial buffers. Excessive risk taking may also damage loan quality. During booms, the quality of risk assessment may suffer because of the volume of new loans and the use of new loans to service existing debt. Risks may be underestimated because the assessments are based partly on the current strength of the economy and the rising values of underlying collateral. During busts, this cycle is reversed, magnifying the negative effects.

acceleration, the contribution of domestic demand to real GDP growth rose sharply whereas that of net exports turned negative. Consumer price inflation has remained relatively unaffected in both countries, with overheating so far largely manifested in widening trade deficits because of a rapid growth in imports.

In Ukraine, macroeconomic imbalances have been driven by different shocks. In recent years, it has experienced large current account surpluses reflecting strong export commodity prices and an undervalued currency. With most of the terms-of-trade gains going to high-saving groups (a reflection of the ownership structure of Ukraine's economy, including the export sector), the impact on domestic demand and inflationary pressures remained subdued through mid-2004. A subsequent pickup of inflationary pressures can be attributed mainly to expansionary fiscal policy, emerging capacity bottlenecks, rapidly rising wages and pensions, and an accommodative monetary policy stance.

Risks of financial sector distress are highest in Ukraine. The level of credit in all three countries is still much below that of many prominent crisis countries, but the speed of credit expansion in Bulgaria and Ukraine has reached levels comparable to theirs. However, institutional and structural factors put the banking systems in Bulgaria and Romania on a much stronger footing than Ukraine's. The large share of foreign ownership and relatively strong prudential indicators also suggest that the banking systems in Bulgaria and Romania are relatively well shielded from shocks. In contrast, it is unclear whether Ukrainian banks could withstand a deterioration in credit quality: the buildup of cushions, in the form of capital and provisions, has not kept pace with the rapid credit expansion, and bank profitability in Ukraine has remained much lower than in most other transition economies. In all three countries, credit risk through exchange rate exposure is a concern, given the large shares of often unhedged foreign currency loans.

### Putting on the brakes

How should policymakers respond to a credit boom? How can they determine whether credit is expanding too quickly? If it is found to be growing too quickly, should the policy response focus on offsetting the effects of the boom or moderating the boom itself?

In principle, policymakers can target an equilibrium level of credit, but such a calculation does not provide any guidance on how rapidly a country should move to that level. In Bulgaria, the gap between the estimated and the actual equilibrium ratios of credit to GDP has been narrowing very rap-

idly: in 2001, before the credit boom came into full swing, the credit-to-GDP ratio was 14½ percent, and by the end of 2004 it had reached about 35½ percent. Thus, the credit-to-GDP ratio rose by an average of about 7 percentage points a year—a pace that has been associated with banking crises in other countries. In Romania and Ukraine, the credit-to-GDP ratio has risen more slowly, averaging 2½ and 4¼ percentage points a year, respectively, during the same period.

The menu of policy responses depends on the country's monetary and/or exchange rate policy framework and its institutional setting. With a fixed exchange rate regime, traditional monetary policy tools (changes in interest rates, open market operations) are ineffective, particularly in countries with open capital accounts. In such a setting, efforts to drain liquidity from the domestic banking system to reduce funding sources will be frustrated. As long as returns on lending remain high, nonbank or cross-border flows will quickly replenish funding sources.

The Bulgarian, Romanian, and Ukrainian authorities have taken different approaches to offset and moderate rapid credit growth. With limited monetary tools at their disposal, policymakers in Bulgaria and Romania have tightened fiscal policy to offset the sizeable increase in private sector consumption and investment. Nevertheless, sharply larger external current account deficits—though largely financed by foreign direct investment inflows—have generated concerns about external vulnerability, and the need to persevere with tight fiscal policies remains. In contrast, in Ukraine, where the predominant concerns are loan quality and banking sector stability—rather than macroeconomic imbalances—policymakers have used bank regulatory and supervisory measures to strengthen banks' resilience to shocks.

Will further measures be needed? Probably so. Bulgaria and Romania are likely to continue to emphasize tighter macroeconomic policies, while supervisors will need to remain vigilant to ensure continued financial sector health, particularly because credit may be diverted to less supervised channels. In Ukraine, stronger prudential and supervisory policies will remain at the heart of efforts to reduce financial vulnerabilities. ■

**In emerging markets, credit booms typically result not in higher inflation but in current account deterioration and exchange rate appreciation.**

Copies of IMF Working Paper No. 05/128, *Too Much of a Good Thing? Credit Booms in Transition Economies: The Cases of Bulgaria, Romania, and Ukraine*, by Christoph Duenwald, Nikolay Gueorguiev, and Andrea Schaechter, are available for \$15.00 each from IMF Publication Services. Please see page 16 for ordering details. The full text is also available on the IMF's website ([www.imf.org](http://www.imf.org)).

## For India, stepped-up reforms hold key to boosting textile and clothing exports

With the elimination of textile and clothing export quotas on January 1, 2005, some countries, notably China, have moved quickly to expand their share of the global export market. Is India in a position to do likewise? Not yet, according to a new IMF Working Paper that examines the country's prospects and suggests that India's gains will be limited without stepped-up reforms and more investment to bolster the sector's competitiveness.

India's textile and clothing sector has long played an important role in the country's economy, including its exports. In 2003, the sector contributed 4 percent to GDP and 14 percent to value added in manufacturing, employed 35 million people (about 10 percent of the workforce), and accounted for \$13 billion in exports (23 percent of total exports). For India, the end of quotas on textile and clothing exports represents both an opportunity and a challenge. There is significant potential for expanding market share, but markets are no longer guaranteed and competition is intensifying. In its favor, India has a large and relatively low-cost labor force, a sizable domestic supply of fabrics, a strong and diverse raw material base for manufacturing natural and artificial fibers, and a capacity-based advantage in spinning. The extent to which India can leverage these assets and benefit from the quota elimination, however, will depend on the degree to which it can remove existing constraints.

### In China's shadow

Clearly, India's performance since 1995, when the liberalization of textile and clothing quotas started, has not been as spectacular as China's. Globally, India's market share increased only marginally in both the textile and garment sectors between 1995 and 2003, while China's share grew significantly. India has expanded its access to U.S. and Canadian markets since 1995, but has lost market share in the European Union and has

managed to capture only a negligible share of the Japanese market (see chart).

Indeed, preliminary U.S. data for the first half of 2005 indicate that China increased its textile and clothing exports in products liberalized after January 2005 by about 242 percent, while India's textile exports to the United States grew by 34 percent. A similar development is evident in the European Union, where China's exports surged by 80 percent, while India's posted a more modest increase of 10 percent.

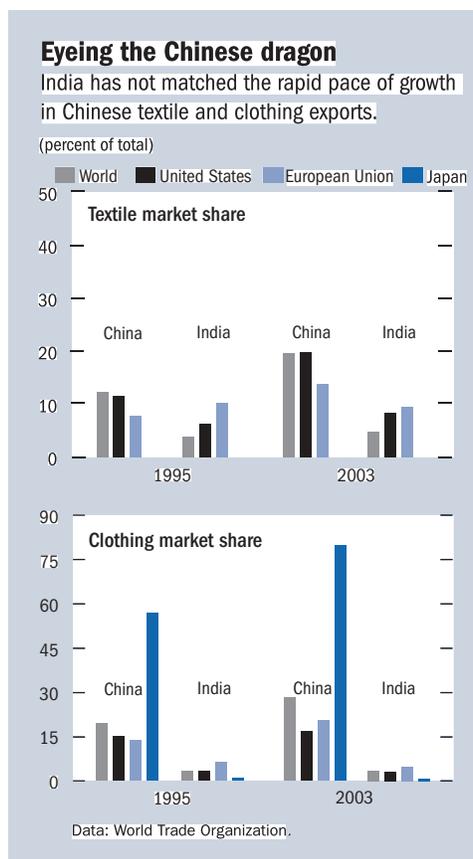
### What the future may hold

To gain a better sense of how Indian textile and clothing exports might fare in the post-quota world, the study examines two scenarios—one in which temporary safeguards are in place limiting Chinese exports and another in which the end of quotas is allowed to have its full effect. The results of these simulations give India little cause for optimism. Its textile and clothing exports would likely continue to expand in the pres-

ence of safeguards limiting Chinese exports but suffer once these safeguards are lifted. Specifically, in a scenario in which a 50 percent quota is imposed on Chinese imports to the United States and the European Union, Indian textiles and clothing exports would grow by 13 percent and 11 percent, respectively. In the scenario in which all quotas are lifted, however, India's textile exports grow by 5.6 percent and clothing exports fall by 4 percent (see table).

### Weaknesses to be addressed

If India is to seize the opportunities afforded by the elimination of quotas, key weaknesses will need to be tackled. The sector's output and productivity are currently constrained by the low quality of textile products, fragmentation of the industry, a continued concentration on low- to medium-priced apparel, lengthy delivery times, delays in customs clearance, little infusion of new technology, lack of scale economies, high transportation costs, and high input costs.



## Temporary shelter

Scenarios suggest that India's exports would likely see a sharp increase with safeguards on China's exports, but fare much less well with all quotas lifted.

		Export values	Export volumes	Export prices
		(percent change)		
<b>Full elimination of quotas</b>				
Textiles	India	5.6	10.3	-4.3
	China	51.0	66.2	-9.2
Clothing	India	-4.0	0.6	-4.7
	China	85.1	113.5	-13.4
<b>Partial elimination of quotas on China<sup>1</sup></b>				
Textiles	India	12.5	17.2	-4.0
	China	19.6	24.7	-4.1
Clothing	India	10.7	15.8	-4.4
	China	36.7	46.4	-6.6

<sup>1</sup>This scenario assumes a complete elimination of quotas for all countries except China, for which a 50 percent reduction in quotas is assumed.

Data: IMF Working Paper No. 05/214.

In the future, textile and clothing prices are expected to fall to market-determined levels, and growth in exports will depend on the enhancement of efficiency. Specifically, in a competitive environment, success will hinge on improvements in quality, price, delivery schedules, and marketing skills. To date, India's reforms have produced only rather modest enhancements in performance, but further domestic reforms can provide the basis for a more rapid increase in India's clothing and textile exports.

Such reforms could include the following:

**Creating an enabling environment.** India has much to gain from improving its infrastructure, removing inefficiencies in its power sector, increasing efficiency in customs procedures, and introducing greater flexibility in the labor market so that the country can set up mega production plants similar to those in China.

**Enhancing its technological capacity.** In an increasingly competitive market, technological development will play a more critical role. The government should, therefore, encourage technology transfer and diffusion of innovation. To minimize lead times, India will need to further integrate the supply chain and develop strong textile clusters capable of coordinating all stages of production. Foreign investment and transfer of technology can do much to make the industry more technologically advanced, improve quality, and boost productivity. India's image as a major exporter would also benefit from a greater emphasis on quality certification and branding.

**Boosting cotton productivity.** Although India is one of the world's largest producers of cotton yarn and fabric, its productivity (measured in ton per hectare) is lower than that of China, Turkey, Brazil, and many other countries. With market share shifting, at least temporarily, to man-made fibers, India will need to increase capacity and enhance its technology in

this subsector. Because it is not clear whether this shift is cyclical or structural in nature, India's efforts to improve the productivity and quality of cotton production—its core strength—should continue.

**Developing services-related expertise.** India's efforts to boost market share will also depend on its ability to improve its designing, marketing, retailing, and financing skills, and to gather market intelligence on foreign markets. India does not yet permit foreign direct investment in its retail segment, but it may be appropriate to allow such investment in retail distribution services for textiles and clothing. This has been done in China, where foreign retailers have the right to set up distribution networks through wholly owned foreign enterprises, without any geographical or quantitative restrictions.

**Broadening its product range.** The clothing sector needs to make greater inroads into the high-fashion and customized clothing segment. Extensive use of computer-aided design and computer-aided manufacture systems will aid innovation and enhance competitive efficiency by reducing lead times. Technical textiles—such as those required for packaging, sports, medical and hygiene needs, and military uses—represent a huge market, but one that requires expensive equipment and more skilled labor. India should encourage diversification of established textile firms to capture this growing market.

**Improving response and delivery times.** To reduce lead times and improve delivery times of products to retailers, there might be scope for greater use of air freight for garment exports. A policy approach that encourages setting up textile clusters linked to small airports that emphasizes freight and business traffic could be a viable medium-term option until ports and other facilities can be enlarged.

Ultimately, realizing India's huge untapped potential for textile and clothing exports will require substantial additional investment, and greater opening and modernization of this sector. Broader reforms aimed at removing infrastructure constraints and making the labor market more flexible will also be needed to facilitate this process. ■

A. Prasad and Sonali Jain-Chandra  
IMF Office of Executive Directors  
and Policy Development and Review Department

Copies of IMF Working Paper No. 05/214, *The Impact on India of Trade Liberalization in the Textiles and Clothing Sector*, by Prasad Ananthakrishnan and Sonali Jain-Chandra, are available for \$15.00 each from IMF Publication Services. Please see page 16 for ordering details. The full text is also available on the IMF's website ([www.imf.org](http://www.imf.org)).

## Maghreb legislators link growth to greater regional integration

The question of how to achieve stronger economic growth and higher employment, and thus faster poverty reduction, topped the agenda when legislators from Algeria, Libya, Morocco, and Tunisia met with IMF staff in Rabat. Participants in the November 29–30 seminar, hosted by the Moroccan parliament and organized by the IMF, agreed on the need to sustain macroeconomic stability, step up structural reforms, and pursue greater regional economic cooperation. They also hoped that the IMF would continue to play a positive role in promoting the regional and global integration of their economies.

In recent years, the Maghreb countries have, to varying degrees, made significant advances in economic reform. Their macroeconomic situations are stable: inflation is low, external current account positions are in surplus, international reserves are high in both the oil-producing (Algeria and Libya) and the oil-importing (Morocco and Tunisia) countries, and external debt has declined significantly.

Despite these gains, however, growth and employment have continued to be inadequate, and the legislators—all members of finance and economic committees in their respective parliaments—pointed to the need for further progress with structural reforms. It will be critical now, they said, to foster greater openness and regional integration to increase trade and foreign direct investment, as well as to adopt broader growth-oriented strategies to reduce unemployment and improve living standards.

Moroccan parliamentarian Mohamed Najib Boulif expressed concerns that the IMF's policy advice focused excessively on macroeconomic stability at the expense of growth, employment, and poverty reduction. In a similar vein, Algeria's Lezhari Bouzid called for a better balance between economic and social objectives. "While we have achieved macroeconomic stability and economic growth and were able to reduce our external debt, we don't see this reflected in our unemployment rate," he said.

Abdelali Jbili, Assistant Director in the Fund's Middle East and Central Asia Department, made the Fund's case that macroeconomic stability is crucial for sustained high growth. He highlighted the risks of instability that could emerge from financial weaknesses in banks or public enterprises, explicit or implicit government guarantees, and unfunded pension systems. Faster implementation of structural reforms would pay off in improved growth and employment performance, he

said, only if macroeconomic stability could be sustained—an assessment that won broad backing from the participants.

### Regional integration and the IMF's role

The IMF participants voiced continued support for the countries' domestic reform agendas, which favor private initiative and investment, and for giving priority to greater regional integration. The legislators expressed unanimous and enthusiastic support for the Fund's work in the Maghreb countries and also argued that intraregional economic cooperation and harmonization of legislation should be allowed to proceed independently of the political dialogue among the Maghreb countries.

As Tunisia's Nouredine Bjaoui stressed, much is at stake in the pursuit of economic integration. The biggest challenges, he said, are "the integration of the region with global markets, the creation of a viable market, and improved competitiveness for our companies to promote growth and create more jobs." As had been underscored at the November 21–22 conference in Algiers on Trade Facilitation in Algeria, Morocco, and Tunisia, a Maghreb regional market of 75 million consumers could bring efficiency gains and increase investor interest in the region. Political and economic stability can

help promote foreign direct investment, Bjaoui added, noting that it is the role of the parliamentarians to "improve the legal framework and fiscal transparency that is conducive to private sector growth."

In concluding remarks, participants emphasized that the seminar had helped broaden and deepen their understanding of the policy challenges facing the Maghreb countries. And the IMF today, Morocco's Abdesselam El Khabbaz observed, "is very different from the institution I demonstrated against as a student." In keeping with this sentiment, the seminar ended on a literary note, with Libyan parliamentarian and poet Salem Abdolkader Assanossi reading a poem in Arabic that paid tribute to the Maghrebi collective efforts and to the IMF's constructive role in the region's economic integration. ■

Michaela Schrader  
IMF External Relations Department

For more information on the Rabat seminar, the third such parliamentary seminar to be held in the Arab region during 2004–05, please see the IMF's website ([www.imf.org/external/np/sec/pr/2005/pr05262.htm](http://www.imf.org/external/np/sec/pr/2005/pr05262.htm)).

## HIPC debt relief (status as of December 28, 2005)

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

### Definitions

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

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

<sup>1</sup>Includes interest on amounts committed under the Enhanced HIPC Initiative.

<sup>2</sup>Equivalent to the committed amount of \$22.5 million at decision point exchange rates for March 17, 1998.

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

Data: IMF Finance Department.

## What does the public know about economic policy?

Public opinion influences politicians and, therefore, public policy decisions. But what determines public opinion on economic issues? And how does the public inform itself about economic issues? Curious about this topic, Alan S. Blinder and Alan B. Krueger (both of Princeton University) conducted a random survey of U.S. public opinion. Their findings—presented at an American Enterprise Institute (AEI) panel in December—challenge the widely held notion that people know little about economic issues.

Indeed, Blinder and Krueger found that the public is actually more knowledgeable than many would expect and has a strong desire to be well informed on economic issues (74 percent of respondents). Respondents cited personal finances and a desire to be responsible citizens as the chief motivators of their interest.

### Ideology matters

When the survey asked what shaped public opinion on economic policies, it found that views were more heavily shaped by ideology and beliefs than by self-interest, knowledge of economic issues, or education. Blinder and Krueger speculated that perhaps people don't understand what is in their self-interest or perhaps the common good matters to them more than self-interest defined narrowly.

The crucial role played by ideology prompted a debate on just what ideology is and where it comes from. Blinder cited political science research that suggests ideological views are largely inherited. Steve Liesman (CNBC—a U.S. cable television station) wondered whether labels such as “liberal” or “conservative” even made sense anymore. And, as for self-interest, some panelists questioned whether people really understood which economic policies benefit them.

### TV as the medium of choice

As for sources of information on the economy, the survey found, unsurprisingly, that the chief source

is cable TV (46 percent of respondents), with local newspapers a distant second (18 percent), and economists faring even more poorly (1 percent). Those who relied on television, however, were much less knowledgeable than those who read specialized magazines and newspapers.

There seemed to be a disconnect, too, between the “strong desire to be informed on economic issues” and the preferences the media seemed to infer from their audiences. Liesman said that from his professional experience, television audiences seek out very little information about economics, and programmers are well aware of this. “The station [CNBC] does as much economics as it has to and not a bit more,” he said. Also, audiences have displayed a distinct preference for financial

information over economic policy analysis, and that preference drives television producers to present information useful to stock market traders, for example.

The medium also dictates the message. Douglas Holtz-Eakin (U.S. Congressional Budget Office) noted that “television is about emotion. Economics is

about taking the emotion out.” Given the public's preference for television, however, Jeffrey H. Birnbaum (*The Washington Post*) argued that the media should do a better job of translating economic concepts into human interest pieces.

While the public's desire for more information on economic issues may be a surprise to the media, Liesman said, it is high time the media started discussing how to better educate the public. The media should not shy away from complex economic policy issues, he said. If people are left feeling confused, it is still a step in the right direction. ■

Sabina Bhatia and Claire Lazarus  
IMF External Relations Department



Nasoud Esmadi/IMF

For more information, see Alan S. Blinder and Alan B. Krueger, “What Does the Public Know About Economic Policy, and How Does It Know It?” *Brookings Papers on Economic Activity* 1:2004, pp. 327–87.

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