

# IMF Publication

## IMFC boosts IMF's multilateral responsibilities

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The world's top financial and development officials, in Washington for the IMF–World Bank Spring Meeting, welcomed the continued strong growth of the world economy but emphasized risks from tight oil markets and global payments imbalances. The International Monetary and Financial Committee (IMFC) backed Managing Director de Rato's proposed revamping of the institution, calling on the IMF to strengthen its multilateral surveillance.



Stephen Jaffe/IMF

## IMF to get strengthened watchdog role, address quotas

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The IMF's policy watchdog role will be strengthened through changes that will be used to help tackle imbalances in the global economy under a new medium-term strategy approved by the IMFC. The Committee also called on de Rato to make concrete proposals by September on how to adjust country representation in the governance of the Fund to reflect changes in the weight and role of countries in the global economy.



Stephen Jaffe/IMF

## Global growth to continue, but imbalances widen

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The IMF's latest *World Economic Outlook* sees the global economy continuing to perform strongly. Global growth is projected at 4.9 percent for 2006, reflecting higher estimates for China, India, and Russia and increasing optimism on Japan. Downside risks predominate, however, given the tightness of oil markets and widening current account imbalances. IMF Economic Counsellor Raghuram Rajan urged policymakers to use the current benign environment to pursue vigorous reform.



Michael Spiloto/IMF

## Regional outlooks are generally positive

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Higher oil prices could threaten otherwise favorable outlooks for sub-Saharan Africa, Asia, and Latin America and the Caribbean, according to the IMF's outlooks for those regions. Inflation around the globe is generally in check. In 2006, growth is expected to again exceed 5 percent in Africa and to top 7 percent in Asia. After exceeding expectations in 2005, growth is projected to be above 4 percent in Latin America and the Caribbean.



Eugene Salazar/IMF

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# What's on

## MAY

**2-3** 36th Washington Conference on the Americas, "Creating Jobs, Building Hope: The Hemispheric Growth Agenda in a Changing World," Washington, D.C., United States

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

**17-18** African Development Bank Group Annual Meetings, Ouagadougou, Burkina Faso

**18** IMF Book Forum, *India's and China's Recent Experience with Reform and Growth*, edited by Wanda Tseng and David Cowen, Washington, D.C., United States

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

Potential of the Middle East," Sharm El-Sheikh, Egypt

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

**22-23** Organization for Economic Cooperation and Development Forum 2006, "Balancing Globalization," Paris, France

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

**29-30** World Bank, Annual Bank Conference on Development Economics, Tokyo, Japan

**29-30** "The International Monetary Fund in Transition," co-sponsored by the World Economic

Forum, the Reinventing Bretton Woods Committee, and the South African Treasury, Cape Town, South Africa

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

## JUNE

**15-16** World Economic Forum on East Asia, "Creating a New Agenda for Asian Integration," Tokyo, Japan

**15** European Research Workshop in International Trade, Joint Vienna Institute, Vienna, Austria

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

**19-23** Financial Action Task Force, Third Plenary Meeting, Paris, France

## JULY

**3-5** High-Level Meeting of the United Nations Economic and Social Council, Geneva, Switzerland

**15-17** Group of Eight Summit, St. Petersburg, Russia

## SEPTEMBER

**10-11** China Business Summit 2006, Beijing, China

**19-20** IMF-World Bank Annual Meetings, Singapore

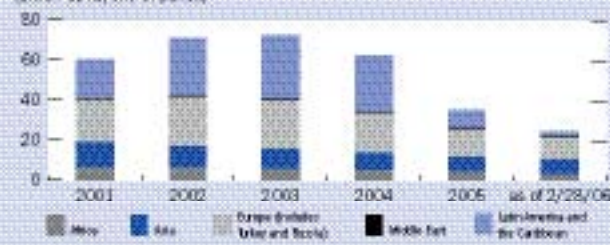
### IMF Executive Board

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).

# IMF financial data

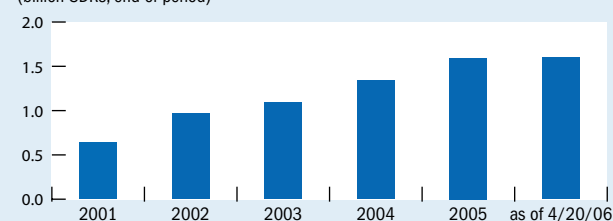
## Total IMF credit and loans outstanding, by region

(billion SDRs, end of period)



## HIPC debt relief<sup>1</sup>

(billion SDRs, end of period)



<sup>1</sup>Cumulative disbursements under the Heavily Indebted Poor Countries Initiative.

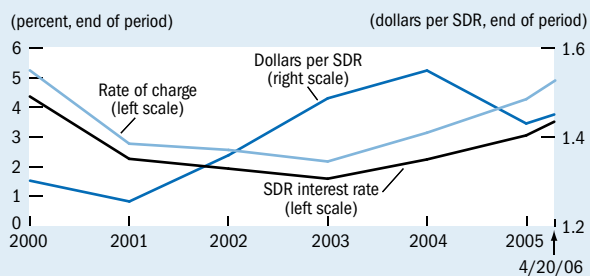
Note: Special Drawing Rights (SDRs) are an international reserve asset created by the IMF in 1969 to supplement the existing official reserves of member countries. SDRs are allocated to member countries in proportion to their IMF quotas. The SDR also

## Major currencies, rates per SDR

	April 25, 2006	Year ago (April 25, 2005)
Euro	1.176	1.169
Japanese yen	167.312	160.407
U.K. pound	0.819	0.793
U.S. dollar	1.461	1.516

## Related rates

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



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 Spring Meetings

## Initiatives herald new IMF efforts to tackle imbalances

The IMF's Managing Director won global backing at the Spring Meeting of the International Monetary and Financial Committee (IMFC) for his medium-term strategy to reorient the organization's work so that it can better meet the demands of a more integrated world economy. The IMFC, the primary advisory committee of the Fund's Governors, supported Managing Director Rodrigo de Rato's vision for the organization and called on the IMF to make new efforts, including new multilateral consultations, to encourage actions to address issues of systemic relevance. The IMFC communiqué (see page 117) also asked the Managing Director to make concrete proposals for bringing voting shares into line with current realities in the world economy.

The April 22–23 meetings of the IMFC and the joint World Bank–IMF Development Committee took place amid the continuing resilience and strength of the global economy. However, spiking oil prices and large and widening current account imbalances—discussed at a Global Imbalances Conference held at the IMF on April 21—lent urgency to calls for policymakers to shake off complacency and take actions to reduce risks to sustained global growth.

**Strong expansion continues, but risks remain**

The world's top economic and financial officials welcomed *World Economic Outlook* (WEO) projections (see page 122) that global growth would reach 4.9 percent in 2006 and 4.7 percent in 2007, with increasing evidence of more geographically balanced growth. While observing that inflation

and inflation expectations “remain well contained,” the IMFC echoed WEO concerns that increased vigilance on inflation is needed. The committee also noted downside risks arising from high and volatile oil prices, the potential for an abrupt shift in financial market conditions, a rise in protectionism, and a possible avian flu epidemic.

The IMFC, reiterating that action for an orderly medium-term resolution of global imbalances is a shared responsibility, again urged the international community to make a concerted and sustained effort to reduce the associated risks. The communiqué reiterated the needed policies—notably, raising U.S. national saving, including by reducing the budget deficit; boosting growth in the euro area and several other countries through structural reforms; further structural reforms in Japan, including fiscal consolidation; greater exchange rate flexibility in emerging Asia; and promoting efficient absorption of oil revenues in oil-exporting countries. But the committee asked the IMF to work on modalities, in consultation with country authorities, aimed at “encouraging actions needed to reduce the imbalances”—including use of the new multilateral consultations proposed in de Rato's medium-term strategy (see page 120).

The IMFC underscored that the world economy's well-being hinged on taking effective steps to improve the supply-demand balance in the oil market over the medium term, strengthen medium-term fiscal positions, secure a successful outcome to the Doha Round, and improve growth prospects in poor countries, notably in sub-Saharan Africa.

**Redefining the IMF's role**

The IMFC's endorsement of de Rato's medium-term strategy follows a lengthy period of internal and public debate and now sets the stage for implementation to begin. Two of the areas to be given attention over the coming months are the IMF's new multilateral consultations and the formulation of a concrete proposal to revise voting power within the institution.

The introduction of multilateral consultations, de Rato explained, is a very important step in tackling global imbalances. Used well, he said, these consultations will help policymakers show that their proposed measures will be matched by others, with greater benefits gained through coordination. De Rato also envisaged these consultations as a key vehicle for the analysis and consensus building that precede policy action.

Speaking with the press after the IMFC meeting, de Rato made it clear that it is governments, not international insti-



IMFC Chair Gordon Brown confers with IMF Managing Director Rodrigo de Rato.

tutions, that need to act to address imbalances. The IMF will provide a framework in which consequences of actions and inactions can be seen more clearly and, in addition to providing description and analysis, will engage governments in an active consultation process. De Rato hoped that it would “teach us a new way of understanding international cooperation.” U.K. Chancellor of the Exchequer and IMFC Chair Gordon Brown concurred, noting that this “is not the IMF as an institution accepting responsibility for multilateral surveillance; it is the members of the IMF as a whole—and therefore the global economy itself—accepting that we have responsibilities to each other and that these responsibilities have got to be addressed.”

### Ensuring legitimacy

The IMF must also ensure that the institution remains legitimate in the eyes of all of its members. There has been growing concern about the fact that quota shares have become increasingly out of line with countries’ weight in the global economy, particularly for many emerging market economies, and that basic votes have been eroded.

De Rato has championed the need for reform, explaining that “the world economy is not a frozen thing; it changes over time.” The IMF has reorganized voting power before, he said, “and it has to change again.” To safeguard the IMF’s effectiveness and credibility as a cooperative institution, the committee called upon “the Managing Director to work with the IMFC and Executive Board to come forward with concrete proposals for agreement at the Annual Meetings” in September.

### Crisis prevention

The IMFC also welcomed the IMF’s efforts to respond to the new challenges and needs of emerging market countries. In an April 20 address at the Institute for International Economics, de Rato challenged those who argue that Fund lending may no longer be necessary now that capital markets have become more important. “There will be financial crises in the future, in current emerging markets or in those that have yet to emerge,” he said, adding that the Fund could prepare for those crises now or “react in haste to them later.”

The Fund’s medium-term strategy focuses particularly on crisis prevention and the desire of emerging market countries for more predictable and flexible financing instruments.

The IMFC backed a “further examination of the Managing Director’s proposal on a possible new instrument to provide high-access contingent financing for countries that have strong macroeconomic policies, sustainable debt, and transparent reporting but remain vulnerable to shocks.” The committee also encouraged the IMF to explore a possible role in supporting regional arrangements for pooling reserves.

### Moving beyond debt relief

The IMFC reaffirmed a critical role for the IMF in low-income countries, especially in helping these countries absorb increased aid flows and debt relief (see page 128) and maintain macroeconomic stability. The Fund will also play a role, in its areas of competence, in monitoring low-income countries’ progress toward the Millennium Development Goals. The IMFC and the Development Committee asked the Fund and the Bank to refine their debt sustainability framework and help countries implement sound medium-term debt strategies and strong public expenditure management and tax systems to avoid reaccumulating crippling debt burdens.

The IMFC also welcomed the Fund’s new Policy Support Instrument (for low-income countries that seek IMF policy guidance without financing) and Exogenous Shocks Facility (for poor countries coping with oil price or other shocks). Brown appealed to all members, including oil producers, to fully finance the new facility.

### On to Singapore

Brown promised that the IMF’s 2006 Annual Meetings in Singapore will “become a reform summit.” An IMF that, at Bretton Woods, was asked to cope with sheltered, protected, and closed economies and offer temporary support for balance of payments adjustments now must cope with open economies and international, not regional, flows of capital, Brown said. The IMFC has now made clear its resolve that the IMF will be equipped to meet these challenges, and 2006 will be “a year of reform for the international economy.” ■



Eugene Schlezar/IMF

Development Committee Chair Alberto Carrasquilla Barrera (left) and World Bank President Paul Wolfowitz at the Development Committee meeting.

For more information on the Spring Meeting—including the full text of communiqués, press conferences, and speeches—please visit the IMF’s website ([www.imf.org](http://www.imf.org))

**2006 IMFC communiqué**

**IMF gets strengthened role to address global imbalances**

Following is the communiqué issued by the International Monetary and Financial Committee (IMFC), which held its 13th meeting in Washington, D.C., on April 22. Gordon Brown, U.K. Chancellor of the Exchequer, chaired the session.

**Global economy and financial markets**

The Committee welcomes the continued strong expansion of the global economy, despite higher oil prices. The expansion is becoming geographically more broadly based, and global growth is expected to remain strong in the next couple of years. Inflation and inflationary expectations remain well contained—although with excess capacity diminishing, continued vigilance will be required. The Committee notes that downside risks arise from continued high and volatile oil prices, the potential for an abrupt shift in global financial market conditions, a rise in protectionism, and a possible avian flu pandemic. The major risks posed by underlying vulnerabilities, including from widening global imbalances, have yet to be comprehensively addressed.

The Committee reiterates that action for orderly medium-term resolution of global imbalances is a shared responsibility and will bring greater benefit to members and the international community than actions taken individually. While progress has been made, more concerted and sustained implementation—with every country doing its part—is needed to help reduce medium-term risks associated with the imbalances. Following the discussion at the Global Imbalances Conference held at the IMF on April 21, the Committee confirms that the agreed policy strategy to address imbalances remains valid. Key elements include raising national saving in the United States—with measures to reduce the budget deficit and spur private saving; implementing structural reforms to sustain growth potential and boost domestic demand in the euro area and several other countries; further structural reforms, including fiscal consolidation, in Japan; allowing greater exchange rate flexibility in a number of surplus countries in emerging Asia; and promoting efficient absorption of higher oil revenues in oil-exporting countries with strong macroeconomic policies. Given economic interlinkages, all countries and regions will have a role to play by increasing the flexibility of their economies and adapting to changing global demand patterns. The Committee therefore asks the IMF to work on modalities, in consultation with country authorities, aimed at encouraging actions needed to reduce the imbalances, and calls for a report at its next meeting. More generally, the new multilateral consultations, as out-



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

Stephen Jaffey / IMF

lined in the Managing Director’s report on implementing the IMF’s medium-term strategy, can play a role in promoting multilateral action.

The Committee welcomes the actions already taken to address capacity constraints in oil production. Building on this progress, it calls for further measures to improve the supply-demand balance in oil markets over the medium term, with oil producers, oil consumers, and oil companies all playing their part, including through closer dialogue. The Committee emphasizes the importance of further upstream and downstream investment; policies to promote energy efficiency, conservation, and alternative sources of energy; reducing subsidies on oil products; and further efforts to improve the quality and transparency of oil market data. The Committee will review progress on these issues at its next meeting.

Steps to strengthen medium-term fiscal positions remain crucial to support growth and stability and improve resilience against future shocks. Greater advantage should be taken of the economic expansion to reduce fiscal deficits and to move forward with reforms to ensure the sustainability of pension and health systems. The Committee also underscores that faster progress to remove constraints to growth in labor and product markets and improve the business and investment climate is essential to reap the benefits of globalization. The Committee welcomes the continued strength of the global financial system and calls for continued vigilance by financial supervisors, especially regarding the potential impact of a turn in the credit cycle. The Committee calls on members to ensure the robustness of essential economic and financial infrastructure as part of a broad strategy to address the risk of an avian flu pandemic and, in this context, supports the IMF’s



Zhou Xiaochuan (Governor of the People's Bank of China) with Jean-Pierre Roth (Chairman of the Governing Board of the Swiss National Bank).



Ngozi Okonjo-Iweala (Minister of Finance of Nigeria) and Didier Reynders (Minister of Finance of Belgium).

outreach initiative to promote business continuity planning among financial institutions.

The Committee emphasizes the importance of an ambitious and successful outcome to the Doha Round by the end of 2006 for global growth and poverty reduction. The Committee calls on all members to resist protectionism in both trade and foreign direct investment. With time running increasingly short, all members must urgently contribute to reaching agreement on the key elements of a comprehensive package supporting a strengthened multilateral trading system. The Committee also calls for continued efforts to help countries take full advantage of the opportunities of global integration arising from ambitious trade liberalization. For poor countries in particular, the Committee urges Aid for Trade assistance firmly grounded in national development strategies and full use of existing and enhanced mechanisms for trade-related technical assistance.

The improving growth prospects in poor countries, including in sub-Saharan Africa, are encouraging. The Committee emphasizes that achieving the Millennium Development Goals (MDGs) requires a partnership between poor countries and donors. Developing countries should continue to pursue sound macroeconomic policies and growth-critical reforms, including further substantial efforts to build sound, accountable, and transparent institutions. The international community should follow through expeditiously on its commitment to provide additional resources.

#### **Implementing the IMF's medium-term strategy**

The Committee welcomes the Managing Director's report on implementing the IMF's medium-term strategy and appreciates the public debate on the role of the IMF. It calls on management and the Executive Board to complete their considerations and then move rapidly to implementation.

The Committee reiterates that the IMF's effectiveness and credibility as a cooperative institution must be safeguarded

and its governance further enhanced, emphasizing the importance of fair voice and representation for all members. We underscore the role an ad hoc increase in quotas would play in improving the distribution of quotas to reflect important changes in the weight and role of countries in the world economy. The Committee agrees on the need for fundamental reforms. The Committee calls upon the Managing Director to work with the IMFC and Executive Board to come forward with concrete proposals for agreement at the Annual Meetings.

The Committee reiterates the importance of making IMF surveillance more effective and supports a review of the 1977 Surveillance Decision. In the context of the Managing Director's medium-term strategy, the Committee proposes a new framework for IMF surveillance that will consist of four elements. First, a new focus of surveillance on multilateral issues, including global financial issues, and especially the spillovers from one economy to others. Second, a restatement of the commitments that member countries and their institutions make to each other under Article IV, on which surveillance can focus on monetary, financial, fiscal, and exchange rate policies. Third, the Managing Director should implement his proposal for a new procedure, which will involve the IMFC and the Executive Board, for multilateral surveillance. Fourth, the IMFC should set a new annual remit for both bilateral and multilateral surveillance through which the Managing Director, the Executive Board, and the staff are accountable for the quality of surveillance. This should involve the independence of Fund surveillance, greater transparency, and the Independent Evaluation Office (IEO).

As emerging market members pursue sound policies and integrate effectively into world trade and capital markets, they make a welcome contribution to global economic stability and avoidance of financial crises. The Committee welcomes the IMF's efforts to respond to the new challenges and needs of emerging market members. Financial and capital markets issues should be increasingly at the center of the IMF's work



Norberto Pagani (Manager of International Relations, Central Bank of Argentina), Roger W. Ferguson (Vice-Chair, Board of Governors of the U.S. Federal Reserve System), and Vittorio Corbo (Governor, Central Bank of Chile).



Ibrahim Al-Assaf (Minister of Finance and National Economy, Saudi Arabia) with Thierry Breton (Minister for the Economy, Finance, and Industry, France).

in these countries. The Committee supports further examination of the Managing Director's proposal on a possible new instrument to provide high-access contingent financing for countries that have strong macroeconomic policies, sustainable debt, and transparent reporting but remain vulnerable to shocks. The Committee encourages the IMF to explore the role it can play in supporting regional arrangements for pooling reserves. A review is also needed of the operational aspects of the IMF's policy on lending into arrears.

The Committee stresses that the IMF has a critical role in low-income countries, including in helping to ensure that expected increases in aid flows and debt relief are absorbed effectively and in a manner consistent with macroeconomic stability. The IMF needs to play its part within its areas of core competence in monitoring progress toward the MDGs. The Committee welcomes the establishment of new instruments that will strengthen the IMF's support for low-income countries, including the Policy Support Instrument and the Exogenous Shocks Facility, and underlines the importance of further contributions to enable the IMF to provide timely concessional shock financing. The Committee welcomes debt relief provided by the IMF and other institutions under the Heavily Indebted Poor Countries (HIPC) Initiative and Multilateral Debt Relief Initiative. It also welcomes the agreement on the final list of potentially eligible members that meet the criteria of the HIPC Initiative. The Committee underscores the importance of ensuring debt sustainability in countries receiving debt relief by refining the joint IMF–World Bank debt sustainability framework and helping countries to implement sound medium-term debt strategies and strong public expenditure management and tax systems. The Committee notes the importance of countries' avoiding the reaccumulation of unsustainable debt and the potentially adverse consequences of nonconcessional borrowing for debt sustainability. It urges all creditors to work with the IMF and the World Bank to adhere to responsible lending. The

Committee considers it critical for the effectiveness of the IMF's work in low-income countries that its policy advice, support for capacity building, and financial assistance are closely aligned with the countries' evolving needs and poverty reduction strategies, and focused on macroeconomic issues, including institutions relevant to financial stability, trade, and economic growth.

The Committee supports efforts to clarify the division of responsibilities and accountabilities of the IMF and the World Bank and to improve their collaboration. It welcomes the establishment of the External Review Committee on World Bank–IMF Collaboration and looks forward to its conclusions.

The Committee notes that the IMF's budgetary position has changed following the recent decline in IMF credit, and this requires actions on both income and expenditure. The Committee calls on the Managing Director to develop proposals expeditiously for more predictable and stable sources of income. The Committee welcomes that the medium-term strategy is formulated in a budget-neutral way and encourages the IMF to further prioritize and streamline its work.

#### Other issues

The Committee recommends members' acceptance of the Fourth Amendment of the Articles of Agreement. The Committee calls for continued actions by all countries to develop strong programs on anti–money laundering and combating the financing of terrorism and supports the comprehensive assessment of these programs within the context of the Financial Sector Assessment Program.

The Committee notes the upcoming discussion by the Executive Board of the external evaluation of the IEO and looks forward to the continuing contribution of the IEO to the IMF's work.

The next meeting of the IMFC will be held in Singapore on September 17, 2006. ■



### IMF medium-term strategy

## IMFC calls for rapid implementation of de Rato's plan

IMF Managing Director Rodrigo de Rato secured broad support at the Fund's Spring Meeting for his medium-term strategy to revamp the work of the Fund. The International Monetary and Financial Committee (IMFC) on April 22 urged the IMF to complete considerations of the strategy and "move rapidly to implementation." In particular, the IMFC endorsed the Managing Director's proposal to strengthen IMF surveillance and said that to reflect changes in the weight and role of countries in the global economy, the IMF must adjust countries' quotas and representation in the governance of the institution (see box below).

High on the new agenda is the aim to give the Fund a larger watchdog role in the world economy at a time of rising oil prices and large global payments imbalances. De Rato said the IMF needed to complement its existing arrangements for individual country consultations with multilateral consultations, enabling the Fund to take up issues comprehensively and collectively with systemically important members and, where relevant, with entities formed by groups of members, such as the European Union.

"This is not a modest proposal," de Rato said in an April 20 speech at the Institute for International Economics in Washington, D.C. "Multilateral consultations would be something new for the IMF and for our member countries,

#### IMF plans changes in country representation

Fair voice and distribution of quotas are central to the legitimacy and effectiveness of the IMF. In his report, IMF Managing Director de Rato referred to "important deficits that have emerged in members' sense of ownership and participation" in the Fund, which made clear the importance of making progress on the issue of country representation and voice. Country representation in the IMF has been slow to adapt to changes in countries' weights and role in the global economy and the Fund. In recent decades, a number of emerging market economies, in particular, have become more important on the world stage.

De Rato proposed a two-stage approach, with an initial ad hoc adjustment in quotas to reflect important changes in the weight and role of countries in the global economy, pending more fundamental reform in a second stage. The IMFC endorsed this approach, and called on the Managing Director to present concrete proposals to the IMF's Annual Meetings in Singapore in September.



Stephen Jaffe / IMF

De Rato called the meeting a "great success" after securing strong backing for his new medium-term strategy for the IMF.

and they would be an important vehicle for analysis and consensus building." Officials in the Fund said that details of how multilateral surveillance would work in practice were still being fleshed out.

"In the future, the IMF should be more able to address global questions with multilateral surveillance, such as current account imbalances, the impact of oil prices, and financial sector questions," said Gordon Brown—U.K. Chancellor of the Exchequer, who is the chair of the policy-setting IMFC—at a press briefing after the meeting.

#### Refocus amid income restraint

Work on the IMF's medium-term strategy began under de Rato's direction in 2004, and his first report on the strategy to the IMFC was endorsed by the committee in September 2005. In recent months, reduced income from loans outstanding has become another factor to be taken into account in the adaptation of the Fund (see box, next page). Key elements of the Managing Director's report on implementing the medium-term strategy, published on April 5 ahead of the IMFC meeting, include the following:

**IMF surveillance.** De Rato proposed a number of changes to make the IMF's surveillance more effective, including the introduction of a new supplemental consultation procedure, in a multilateral format; broadening the coverage of the Fund's framework for exchange rate assessments from industrial countries to all major emerging market currencies; reviewing the 1977 Board decision on the principles and procedures for surveillance; strengthening the analysis in the *World Economic Outlook* and *Global Financial Stability Report*

## IMF sees decline in income

Managing Director Rodrigo de Rato noted in his report to the IMFC that the recalibration of the IMF must take into account a decline in the Fund's income from lending. The IMF has traditionally financed its activities from the money earned in interest on loans to members. These have declined for a number of reasons, including the relatively buoyant global economy, improved policies in many emerging market countries, and the pattern of global payments imbalances.

De Rato noted that paying for surveillance and capacity building with margins on adjustment lending is no longer tenable, and proposed actions on both IMF expenditure and income. He said that a new business model was needed to place the institution on a sound financial footing over the long term, based on a stable source of income. However, developing a political consensus around any particular measure—be it conversion of gold into earning assets or an annual fee linked to quota or anything else—will take time. It is therefore proposed to catalyze this process by establishing an external committee, headed by an eminent personality, to make recommendations.

The IMFC agreed with the Managing Director that actions would be needed on both income and expenditure and called both for proposals for more predictable and stable sources of income and for further prioritization and streamlining of the Fund's work.

of macroeconomic and financial risks and their interactions; and looking at the main policy issues facing regional blocs.

Surveillance would also be bolstered at the country level by choosing focus and effectiveness over comprehensiveness, with deeper analysis of financial systems, a multilateral perspective to surveillance, and more regional context and outreach.

**Emerging markets.** De Rato argued that, in the many countries that have emerged to become major global players, the main priority must be to augment candid and focused

macroeconomic analysis with enhanced surveillance over financial and capital markets. At the same time, the Fund can do more by way of crisis prevention and response.

Specific proposals for crisis prevention include

- allowing for high-access contingent financing through a new instrument available to countries with strong macroeconomic policies, sustainable debt, and transparent reporting but still facing potential balance sheet weaknesses and vulnerabilities; and
- standing ready to support regional and other reserve-pooling arrangements, including by signaling sound policies.

There also are proposals for reviewing the framework for crisis resolution, including the complications from rare but important cases of sovereign debt restructuring and arrears.

**Low-income countries.** De Rato said that in recent years, great strides have been made in contributing to economic development through poverty reduction strategies and the Poverty Reduction and Growth Facility. More flexible instruments of IMF support have recently been introduced. The UN Millennium Development Goals (MDGs), which seek to halve key poverty indicators by 2015, are receiving much attention, with the Fund and the World Bank called on to monitor and report on progress. One of the challenges ahead will be to marshal the expected rise in aid flows, including from debt relief, to achieve higher growth and the MDGs. Helping countries to manage the macroeconomic challenges of stepped-up aid requires a deeper but more focused engagement by the Fund, as well as new understandings with the World Bank and other agencies on the division of labor.

**Capacity building.** Targeted efforts in this area are key to helping members implement reforms. Capacity building also needs to be part of the strategy to address vulnerabilities identified in surveillance, de Rato argued. The Fund's efforts to build macroeconomic institutions through technical assistance and training can be strengthened with better prioritization and country ownership. ■

## Anne Krueger announces plans to leave IMF

Anne O. Krueger, who has served as the IMF's First Deputy Managing Director since 2001, announced that she will be leaving the Fund on August 31 when her term expires. Krueger came to the IMF after a distinguished career at Stanford University and the World Bank.

Krueger made particular note of the friendships she had made while at the Fund, counting among them members of the Executive Board and

staff and her management colleagues, including former IMF Managing Director Horst Köhler and the Fund's current head, Rodrigo de Rato. "Fortunately," she said, "leaving the Fund will not mean leaving these friendships behind. Nor will it mean leaving behind the issues which have preoccupied all of us."

De Rato expressed appreciation and gratitude for Krueger's work at the IMF, praising her strong intellectual leadership, which he said, "has made others think deeply, on policy issues such as trade and the relations between sovereign debtors and their creditors." He also stressed her important role in shaping the IMF's medium-term strategy.



Stephen Jaffey / IMF

## World Economic Outlook

### Imbalances, oil prices cloud strong global growth prospects

**O**n the strength of higher growth estimates for China, India, and Russia and of increased optimism on Japan, the IMF has added 0.6 percentage point to its 2006 global growth projections in its latest *World Economic Outlook*. It now projects that the world economy will grow by 4.9 percent this year, compared with its projection of 4.3 percent last September.

In an April 19 press briefing, IMF Economic Counsellor Raghuram Rajan lauded the global economic performance (see chart), pointing out that 2006 would be the fourth consecutive year of growth above 4 percent and that growth has become more balanced regionally—a particularly welcome development. The world, he said, can honestly be told that it has “never had it so good.” Tight oil markets, widening imbalances, and mounting pressures on interest rates, however, keep risks tilted to the downside. Most troubling, he said, is the “growing implementation deficit.” Far too little is being done in far too many places, and Rajan worried that politicians all over the world were frittering away a golden opportunity to make the kind of adjustments that would allow their economies to keep pace with an increasingly integrated and more competitive world.

#### More balanced growth

For the advanced economies, 2006 holds the prospect of moderating growth in the United States, continued robust growth in Japan, and more traction in the euro area’s expansion.

In the *United States*, growth in the first quarter of 2006 is likely to have rebounded from the sluggish fourth quarter in 2005, and growth for this year as a whole is projected at 3.4 percent, a slight drop from last year’s 3.5 percent. Downside risks remain—notably uncertainties surrounding the continued financing of a widening U.S. current account deficit and a cooling of the housing market, where a 5 percentage point slowdown in the rate of appreciation in real house prices, for example, could lop 1 percentage point off U.S. growth, Rajan said. Over the medium term, bolder fiscal adjustment—with the IMF seeing higher taxes having to do most of the heavy lifting—with the ultimate aim of achieving budget balance (excluding social security) by 2010 will be a top priority if the country is to position itself to cope with future demographic pressures and contribute to a reduction in global imbalances.

In *Japan*, recovery is now well under way, with the economy projected to grow by 2.8 percent in 2006. Exports have done their bit to spur the rebound, but the real news is that the expansion is increasingly being driven by domestic demand,

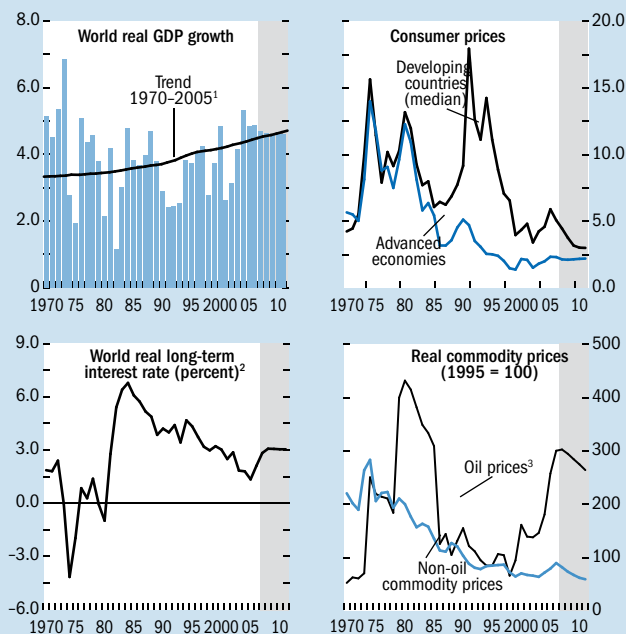
underpinned by rising employment, buoyant corporate profits, and positive credit growth. Near-term prospects may brighten further, particularly if private consumption gains momentum. Over the longer term, however, Japan’s capacity to sustain solid growth and address the needs of its aging population will depend on its ability to manage the transition to a new monetary framework, restore budget sustainability, and revive productivity growth.

As for prospects in the *euro area*, the *WEO* took heart from leading indicators that continue to suggest that the recovery is strengthening. Despite weak consumption data for the region, the IMF remains optimistic, Rajan said, that growth in the euro area “will pick up to about 2 percent in 2006 and the pickup will be broad-based.” The IMF chided the euro area, however, for making little progress on budget deficits. The region’s longer-

#### Still resilient

Global growth remains notably above trend, while inflation and long-term interest rates are unusually low.

(annual percent change unless otherwise noted)



Note: Shaded areas indicate IMF staff projections. Aggregates are computed on the basis of purchasing-power-parity (PPP) weights unless otherwise noted.

<sup>1</sup>Average growth rates for individual countries, aggregated using PPP weights; the aggregates shift over time in favor of faster-growing countries, giving the line an upward trend.

<sup>2</sup>GDP-weighted average of 10-year (or nearest maturity) government bond yields less inflation rates for the United States, Japan, Germany, France, Italy, the United Kingdom, and Canada. Excluding Italy prior to 1972.

<sup>3</sup>Simple average of spot prices of U.K. Brent, Dubai Fateh, and West Texas Intermediate crude oil.

Data: IMF, *World Economic Outlook* and staff calculations.

term prosperity is inextricably linked to more ambitious steps to raise potential growth and boost employment through greater labor market flexibility. “More insecurity in the workplace may well be the price that has to be paid to obtain more security for the European way of life,” he said.

### Asia stays strong

Emerging Asia’s growth kept up its scorching pace in 2005, at 8.2 percent, and is expected to ease only slightly to 7.9 percent in 2006. This is a full percentage point higher than the growth rate for 2006 projected in September. China should grow at a 9.5 percent clip in 2006. To sustain that high growth, however, China will need to rely more on boosting domestic consumption and less on investment and net exports. Plans to step up spending on health care and education and to develop social safety nets are welcome, Rajan said, but they will be most effective “if supported by financial sector reforms and more exchange rate flexibility.”

India continues to flex its muscles, too, and is projected to grow by 7.0 percent in 2006. The *WEO* commends the country for beginning to address its sizable infrastructure needs. But the urgent priorities going forward, Rajan said, are more flexible labor markets that will allow India to create labor-intensive sectors and increased investment in higher education, so that it can maintain competitiveness in skill-intensive industries.

### Spreading the wealth

Over the past several years, low inflation, increased demand for commodities, and improved macroeconomic environments in many countries have helped spread the fruits of the global economy’s strong, sustained growth. “Most heartening,” observed Rajan, “is *sub-Saharan Africa*’s recent performance.” The *WEO* projects that the region will see real growth exceed 5 percent for the third year in a row (see table). Indeed, the projected growth of 5.8 percent in 2006 represents the region’s highest rate in 30 years.

For the *Middle East* and much of *Central Asia*, rising oil receipts are expected to propel continued solid growth in 2006 and swell current account surpluses. For these countries, the key challenge will be to channel oil receipts into productive investment and meet the employment needs of their large youthful populations.

Higher commodity prices have also helped underwrite a robust economic expansion in *Latin America*, where the *WEO* projects 4.3 percent growth in 2006—identical to its 2005 performance but 0.5 percentage point higher than the September estimate. Impressive fiscal discipline coupled with strong growth has helped spur a major reduction in public debt. However, debt is still high in a number of countries, and sustaining its downward trajectory will be one of the region’s chief priorities.

### More balanced growth

A greater number of countries and regions are now contributing to strong global growth.

	2004	2005	Current projections	
			2006	2007
	(annual percent change)			
<b>World output</b>	<b>5.3</b>	<b>4.8</b>	<b>4.9</b>	<b>4.7</b>
Advanced economies	3.3	2.7	3.0	2.8
United States	4.2	3.5	3.4	3.3
Euro area	2.1	1.3	2.0	1.9
Japan	2.3	2.7	2.8	2.1
Newly industrialized Asian economies	5.8	4.6	5.2	4.5
Other emerging market and developing countries	7.6	7.2	6.9	6.6
Sub-Saharan Africa	5.6	5.5	5.8	5.7
Russia	7.2	6.4	6.0	5.8
Developing Asia	8.8	8.6	8.2	8.0
China	10.1	9.9	9.5	9.0
India	8.1	8.3	7.3	7.0
ASEAN-4 <sup>1</sup>	5.8	5.2	5.1	5.7
Middle East	5.4	5.9	5.7	5.4
Western Hemisphere	5.6	4.3	4.3	3.6

<sup>1</sup>ASEAN-4 = Indonesia, Malaysia, the Philippines, and Thailand.  
Data: IMF, *World Economic Outlook*, April 2006.

In *Eastern Europe*, growth has been strong and prospects continue to be good, but “high current account deficits and rapid credit growth in many countries need to be monitored closely,” Rajan said.

### Pressures mounting

Strong growth prospects notwithstanding, pressures are mounting on several fronts. Plentiful global liquidity has helped hold down long-term interest rates and risk premiums, but the liquidity cycle appears poised to turn, and an expected reduction in corporate excess savings also seems likely to put upward pressure on real interest rates. Effectively, the world is seeing a return to normal after a period of extremely benign conditions, Rajan said. That is a completely natural transition, but policymakers will have to remain alert. Any shift carries risks, and this is particularly true “where asset prices are inflated.”

Finally, the *WEO* reiterated its call for a multilateral approach to resolving global current account imbalances. These imbalances will need to be adjusted, and sound risk management would seem to argue for a multilateral policy framework that puts in place policies that can support a smooth, private sector-led transition. Such an approach, Rajan said, could also reassure markets—and thus reduce the likelihood of abrupt and costly rebalances—and help quell rising protectionist sentiment that he called “a very real danger in the world today.” ■

Copies of the April 2006 *World Economic Outlook* are available for \$49.00 (\$46.00 academic rate) each from IMF Publication Services. Please see page 128 for ordering information. The full text is also available on the IMF’s website ([www.imf.org](http://www.imf.org)).

## Regional Economic Outlook

### Sub-Saharan Africa enjoys strong growth, thanks in part to prudent policies

Sub-Saharan Africa's economic growth is projected at 5.3 percent in 2006, the same rate as in 2005, according to the IMF's *Sub-Saharan Africa: Regional Economic Outlook (REO)*, released April 21 in Washington, D.C. (Sub-Saharan Africa, defined in the *REO* as the countries covered by the IMF African Department, excludes Djibouti, Mauritania, and Sudan; the projections for the group thus differ from those in the *World Economic Outlook*.)

The report attributes the projected maintenance of relatively strong growth—by the standards of recent decades—despite higher oil import prices, to many countries' continued pursuit of prudent macroeconomic policies and to strong global demand growth. Higher growth in oil-exporting countries should offset slower growth in oil-importing countries.

In presenting the report to the press, Abdoulaye Bio-Tchane, Director of the IMF African Department, said "it's really not acceptable to see oil revenues increasing while poverty is increasing. That's the equation we have to solve, and I think

the authorities, ourselves, the World Bank, and other donors ... need to find the right balance." For poverty in the region to be halved by 2015—the aim of the Millennium Development Goals—a real GDP growth rate of 7 percent is required. Only Cape Verde, the Democratic Republic of Congo, Malawi, Mozambique, and Sierra Leone could see real GDP growth of 7 percent or higher in 2006. As Africa seeks to boost growth further, it will need to make effective use of the large increase in donor aid and debt relief promised in 2005 and focus on fiscal decentralization and financial sector development.

Inflation in sub-Saharan Africa registered 10.7 percent in 2005, in part because of higher oil prices, and is expected to be largely stable in 2006 at 11 percent. It should decline in many countries but rise in others, including Zimbabwe, the only country with annual inflation in triple digits. Stabilization efforts in oil exporters Angola, Chad, and Nigeria should reduce inflation to less than 8 percent; but, mainly because of oil prices, average inflation in the oil-

#### African countries call on IMF to complement their development efforts



Antoinette Sayeh and Baledzi Gaolathe speak to the press.

On April 22 in Washington, D.C., Abdoulaye Diop (Senegal's Minister of Economy, Finance, and Planning), Jean-Claude Masangu Mulongo (Governor, Central Bank of the Democratic Republic of Congo), Baledzi Gaolathe (Botswana's Minister of Finance and Development

Planning), and Antoinette Sayeh (Liberia's Minister of Finance) briefed the press on issues important to African countries: Zimbabwe's economic situation; the prospects for a Southern African Development Community (SADC) free trade zone, the impact of a quota redistribution on African countries, and the status of a common currency for West African countries.

Diop opened by saying it was a good time for African countries, especially the French-speaking ones, to review their positions in the IMF and the World Bank and to react to the various reform strategies. Gaolathe noted that African countries looked to these institutions to complement or supplement their development efforts.

Responding to a question about Zimbabwe's situation and whether an economic intervention to save it had been contem-

plated, Gaolathe indicated that SADC members would have to work cooperatively to solve that issue and would ask their international partners to support Zimbabwe's efforts to overcome its problems. He foresaw a major role for the IMF in helping Zimbabwe address its shortage of foreign exchange and its balance of payments problems.

As for an SADC free trade zone, Gaolathe noted that they were moving in that direction and should achieve the goal by 2008. By 2011, he said, they should have a common tariff and would then work toward a common market, at which point, "there should be a freer movement of labor across the region."

The West African common currency is an ongoing project, said Diop. Eight French-speaking West African Economic and Monetary Union (WAEMU) countries share a common currency (the CFA franc), and seven other countries, each with a different currency, belong to the West African Monetary Institute (WAMI). Diop described two possible scenarios for the next step: the countries that are not already WAEMU members can join it, or the seven WAMI countries can try to converge and create a common currency.

Sayeh, representing a country emerging from years of conflict and seeking to reestablish its relationships with the international community, noted that Liberia had just issued a 150-day Action Plan outlining some of the policy measures the government is taking to put the country on the road to economic recovery.

## Africa's better growth continues

The gains of oil-exporting countries contribute to Africa's positive outlook, as does the continued ability of oil importers to weather higher oil prices. Inflation is likely to decline moderately in several countries, although domestic prices may show a small uptick in countries that pass through oil prices.

	Real GDP growth		Real per capita GDP growth		Consumer prices		Overall fiscal balance, including grants		External current account, including grants	
	(percent)		(percent)		(annual average percent change)		(percent of GDP)		(percent of GDP)	
	2005	2006	2005	2006	2005	2006	2005	2006	2005	2006
<b>Oil-exporting countries</b>										
Angola	15.7	26.0	12.5	22.4	23.0	13.0	4.3	5.4	8.2	11.3
Cameroon	2.6	4.2	-0.2	1.4	2.0	2.6	3.5	1.2	-1.5	-1.6
Chad	5.6	3.0	3.0	0.5	7.9	3.0	-1.5	-1.6	2.2	8.2
Congo, Republic of	9.2	5.2	6.1	2.2	2.0	2.5	19.0	19.0	13.9	13.6
Côte d'Ivoire	0.5	2.4	-2.4	-0.5	3.9	2.8	-1.9	-0.8	0.7	1.9
Equatorial Guinea	6.0	-1.1	3.0	-3.8	6.8	5.5	23.4	27.7	-13.3	-5.8
Gabon	2.9	2.9	0.4	0.4	0.1	1.0	8.0	11.8	15.7	19.6
Nigeria	6.9	6.2	4.3	3.6	17.9	9.4	9.9	17.5	14.7	18.4
<b>Oil-importing countries</b>										
Benin	3.5	4.0	0.7	1.1	5.5	3.0	-2.2	-2.4	-6.4	-8.8
Botswana	3.8	3.5	4.2	4.2	8.6	8.9	0.1	-1.3	8.9	4.8
Burkina Faso	7.5	4.2	5.0	1.9	6.3	2.1	-3.9	-4.2	-9.2	-9.2
Burundi	0.9	6.3	-1.1	4.2	13.6	3.1	-7.0	0.2	-4.4	-8.1
Cape Verde	6.3	7.0	4.8	5.0	0.4	2.1	-2.9	-3.9	-4.3	-10.7
Central African Republic	2.2	3.2	0.2	1.2	3.0	2.3	-2.5	-1.3	-4.1	-3.9
Comoros	2.0	3.0	-0.7	0.3	4.9	4.4	-0.1	-1.9	-4.3	-3.8
Congo, Dem. Rep. of	6.5	7.0	3.4	3.9	21.4	9.3	-3.1	-2.4	-4.8	-2.6
Ethiopia	8.7	5.3	5.8	2.4	6.8	10.8	-4.9	-5.8	-9.1	-7.5
Gambia, The	5.0	4.5	2.3	1.9	4.3	4.0	-6.1	-4.6	-13.1	-11.5
Ghana	5.8	6.0	3.2	3.3	15.1	8.8	-1.3	-2.0	-6.6	-7.8
Guinea	3.0	5.0	-0.2	1.9	31.4	24.1	-0.8	0.5	-3.4	-3.4
Guinea-Bissau	2.0	2.6	-1.0	-0.4	3.4	3.1	-9.0	-17.1	-1.5	-19.6
Kenya	4.7	3.3	2.8	1.4	10.3	11.5	-1.8	-3.4	-7.6	-4.4
Lesotho	-0.7	2.3	-2.5	0.5	3.7	5.0	2.0	-0.8	-14.7	-15.9
Madagascar	4.6	5.7	1.6	2.7	18.4	9.5	-5.4	-4.2	-12.8	-10.4
Malawi	1.9	8.3	-0.2	6.2	12.3	9.0	-5.3	-1.8	-7.7	-4.6
Mali	5.4	5.4	3.1	3.1	5.0	-1.5	-4.1	-3.4	-9.2	-7.5
Mauritius	3.5	2.7	2.6	2.0	5.6	7.1	-5.0	-4.9	-3.5	-2.5
Mozambique	7.7	7.9	5.2	5.4	7.2	7.5	-5.7	-3.8	-11.6	-10.4
Namibia	3.5	4.5	0.5	1.4	2.4	5.1	-3.8	-3.5	5.7	6.6
Niger	7.0	3.6	3.8	0.4	7.8	0.3	-4.1	-4.9	-6.1	-7.2
Rwanda	5.0	4.0	2.3	1.9	9.2	5.5	1.2	-2.2	-3.9	-9.9
São Tomé and Príncipe	3.8	4.5	1.8	2.5	16.2	14.8	56.9	59.6	-33.1	-28.4
Senegal	6.2	5.0	3.7	2.5	1.8	2.6	-3.4	-4.1	-7.9	-8.2
Seychelles	-2.3	-1.4	-2.8	-1.8	1.0	-0.7	0.7	-0.4	-14.6	-1.8
Sierra Leone	7.2	7.4	4.5	4.7	12.5	11.7	-1.9	-0.5	-8.5	-6.4
South Africa	4.9	4.3	4.0	3.4	3.4	4.5	-0.8	-1.4	-4.2	-3.9
Swaziland	2.2	1.2	2.0	1.1	4.8	5.1	-4.2	-5.6	-1.4	-1.3
Tanzania	6.9	5.8	4.6	3.9	4.6	5.2	-3.3	-6.3	-2.6	-7.6
Togo	0.8	4.2	-2.3	1.0	6.8	2.9	-0.8	-2.9	-11.6	-10.3
Uganda	5.6	6.2	2.1	2.7	8.0	6.5	-0.3	-2.0	-1.2	-3.9
Zambia	5.1	6.0	2.6	3.5	18.3	13.3	-2.3	-2.5	-10.2	-9.3
Zimbabwe	-6.5	-4.7	-6.5	-4.7	237.8	850.4	-6.1	-3.3	-11.1	1.7
<b>Sub-Saharan Africa</b>	<b>5.3</b>	<b>5.3</b>	<b>3.4</b>	<b>3.4</b>	<b>10.8</b>	<b>11.0</b>	<b>1.2</b>	<b>2.1</b>	<b>-0.5</b>	<b>0.7</b>
Oil-exporting countries	6.8	8.0	4.0	5.2	13.3	7.7	7.6	11.5	9.3	12.3
Oil-importing countries	4.9	4.5	3.2	2.9	10.0	12.0	-1.6	-2.2	-4.8	-4.5

Note: Figures for 2006 are IMF projections.

Data: IMF, African Department database and World Economic Outlook database, as of February 24, 2006.

importing countries (apart from Zimbabwe) should increase to 12 percent.

Fiscal deficits, including grants, are projected to worsen in more than half the oil-importing countries, notably Cape Verde, Ethiopia, Guinea-Bissau, and Kenya. The reserve cover for oil importers should, on average, remain unchanged, but it is expected to fall in Burkina Faso, Comoros, Ethiopia, Guinea-Bissau, Rwanda, and Tanzania. Continuing high oil prices are expected to raise the fiscal and current account surpluses of oil-exporting countries.

However, this outlook is subject to risks. In oil-importing countries, fiscal and current account balances may come under

pressure from higher-than-expected oil prices or lower-than-expected prices for Africa's other commodities. In several parts of the region, political uncertainties and fragile security threaten growth prospects, as does the possible spread of the avian flu. Moreover, millions of people in eastern and southern Africa are experiencing food shortages and urgently need humanitarian assistance. ■

The texts of the *Regional Economic Outlook* for Sub-Saharan Africa, for Asia, and for the Western Hemisphere are available on the IMF's website ([www.imf.org](http://www.imf.org)). The *Regional Economic Outlook* for the Middle East will be available at a later date.

## 2006 Regional Economic Outlook

# Asian growth to remain buoyant

Asia is expected to have another good year in 2006, according to the IMF's May *Asia-Pacific Regional Economic Outlook*. The report, to be launched in Hong Kong SAR on May 2, projects that regional growth will again amount to a robust 7 percent this year, the same as last year. In Japan, the recovery is expected to continue, with domestic demand strengthening thanks to robust corporate investment and a firming labor market, which is stimulating household incomes and consumption.

Meanwhile, economies in emerging Asia will continue to benefit from a surge in external demand for the region's products, especially electronics. And while domestic demand had long been tepid—China and India excepted—it has been gaining traction since early 2005.

This outlook, however, is not without significant risks, notably from rising oil prices. These have so far had only a moderate effect on Asia's growth, because they have been associated mainly with increases in global demand, which have also led to a compensating increase in demand for Asia's exports. But this may change, since concerns about future supply have now become the prime mover of prices.

### Steady growth, low inflation

Asia is projected to grow at 7 percent, supported by the well-established economic expansion in Japan and Australia and solid growth in most of emerging Asia. Inflation, forecast at 3 percent, will remain subdued.

	Real GDP growth (y-o-y percent change)			Consumer price inflation (y-o-y percent change, average)		
	2005	Proj. 2006	Proj. 2007	2005	Proj. 2006	Proj. 2007
<b>Industrial Asia</b>	<b>2.7</b>	<b>2.8</b>	<b>2.2</b>	<b>0.2</b>	<b>0.7</b>	<b>0.9</b>
Japan	2.7	2.8	2.1	-0.3	0.2	0.6
Australia	2.5	2.9	3.2	2.7	2.9	2.7
New Zealand	2.0	0.9	2.1	3.0	2.7	2.4
<b>Emerging Asia</b>	<b>8.3</b>	<b>8.0</b>	<b>7.7</b>	<b>3.2</b>	<b>3.5</b>	<b>3.2</b>
China	9.9	9.5	9.0	1.8	2.0	2.2
India <sup>1</sup>	8.0	7.3	7.0	4.7	5.1	5.5
<b>NIEs<sup>2</sup></b>	<b>4.5</b>	<b>5.2</b>	<b>4.5</b>	<b>2.3</b>	<b>2.1</b>	<b>2.3</b>
<b>ASEAN-4<sup>3</sup></b>	<b>5.2</b>	<b>5.1</b>	<b>5.7</b>	<b>7.5</b>	<b>8.9</b>	<b>4.6</b>
<b>Asia</b>	<b>7.1</b>	<b>6.9</b>	<b>6.6</b>	<b>2.6</b>	<b>2.9</b>	<b>2.8</b>

<sup>1</sup>Inflation figures are based on wholesale prices.

<sup>2</sup>The NIEs (newly industrialized economies) are Hong Kong SAR, Korea, Singapore, and Taiwan Province of China.

<sup>3</sup>Indonesia, Malaysia, the Philippines, and Thailand.

Data: IMF, Asia and Pacific Department core database and staff estimates.

### Surpluses diminishing

While current account balances are expected to further deteriorate in Japan and India, they are projected to stabilize in China and the ASEAN-4 and improve slightly in the NIEs.

	Current account balances				Non-oil current account balances			
	2004	2005	Proj. 2006	Proj. 2007	2004	Est. 2005	Proj. 2006	Proj. 2007
	(percent of GDP)							
<b>Industrial Asia</b>	<b>2.4</b>	<b>2.1</b>	<b>1.7</b>	<b>1.5</b>	<b>3.8</b>	<b>4.0</b>	<b>4.1</b>	<b>4.0</b>
Japan	3.8	3.6	3.2	2.9	5.3	5.8	5.8	5.7
Australia	-6.3	-5.9	-5.6	-5.5	-5.9	-5.5	-5.0	-4.8
New Zealand	-6.7	-8.9	-8.9	-7.6	-4.3	-6.1	-6.0	-4.8
<b>Emerging Asia</b>	<b>4.2</b>	<b>5.0</b>	<b>4.5</b>	<b>4.4</b>	<b>7.7</b>	<b>9.8</b>	<b>10.2</b>	<b>10.5</b>
China	3.6	7.1	6.9	6.7	7.3	12.9	14.0	14.7
India	0.2	-1.8	-3.1	-3.1	3.4	1.4	1.0	0.8
<b>NIEs<sup>1</sup></b>	<b>7.0</b>	<b>6.0</b>	<b>5.7</b>	<b>5.6</b>	<b>10.8</b>	<b>10.7</b>	<b>10.7</b>	<b>10.7</b>
<b>ASEAN-4<sup>2</sup></b>	<b>4.4</b>	<b>3.1</b>	<b>2.8</b>	<b>2.5</b>	<b>7.0</b>	<b>7.2</b>	<b>7.0</b>	<b>6.4</b>
<b>Asia</b>	<b>3.2</b>	<b>3.5</b>	<b>3.2</b>	<b>3.1</b>	<b>5.6</b>	<b>6.8</b>	<b>7.3</b>	<b>7.5</b>
<b>Emerging Asia excl. China</b>	<b>4.7</b>	<b>3.4</b>	<b>2.7</b>	<b>2.5</b>	<b>8.0</b>	<b>7.4</b>	<b>7.2</b>	<b>7.0</b>

<sup>1</sup>The NIEs (newly industrialized economies) are Hong Kong SAR, Korea, Singapore, and Taiwan Province of China.

<sup>2</sup>Indonesia, Malaysia, the Philippines, and Thailand.

Data: IMF, *World Economic Outlook April 2006*; Asia and Pacific Department core database; and staff estimates.

At the same time, global financial market conditions are tightening, potentially leading to reductions in capital inflows and declines in asset prices, which could put some stress on borrowers, especially consumers, who have been increasing their debt rapidly. Other notable risks include a potential disorderly unwinding of the global imbalances, and avian flu.

Meanwhile, inflation, projected to average 3 percent in 2006, remains subdued. However, the situation varies across the region, with price pressure being stronger in the ASEAN-4 countries (Indonesia, Malaysia, the Philippines, and Thailand). Even there, however, inflation should slow over the course of the year, as the influence of domestic oil price adjustments wanes and recent monetary tightening takes hold.

Current account surpluses are diminishing in most countries under the weight of growing oil import bills and, in some countries, stronger domestic demand. In emerging Asia, excluding China, the surplus is expected to fall to 2¾ percent of GDP this year, about half its 2004 level. In contrast, China's current account surplus more than doubled in 2005 as exports surged, reaching 7 percent of GDP, a level that is likely to be maintained this year. ■

## Regional Economic Outlook

# Western Hemisphere: Seizing the moment

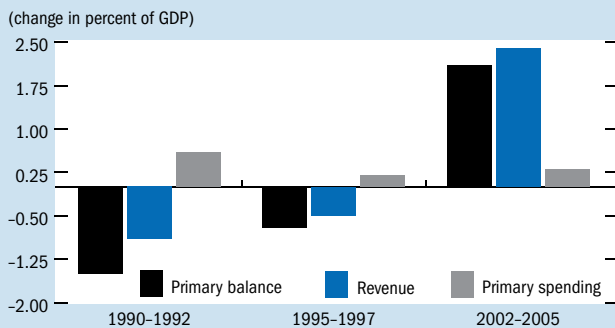
The outlook for the United States, Canada, and Latin America and the Caribbean (LAC) is favorable, according to the IMF's April 2006 *Regional Economic Outlook*, which was released in Washington, D.C., on April 21 by Anoop Singh (Director of the IMF's Western Hemisphere Department). According to Singh, "the region is at an important historical juncture. The recent strong performance of the regional and global economy and the continuing generally favorable outlook provide a rare opportunity for policymakers in the region."

The report projects that growth in the *United States* and *Canada* will continue to provide key support for global expansion. U.S. growth is projected to remain close to 3½ percent in 2006, with continued low core inflation and strong productivity growth. Growth in Canada is expected to pick up to just over 3 percent. The expansion of household demand should moderate somewhat in both countries, but healthy corporate profits and business investment should provide an offsetting boost to demand.

Growth in the *LAC region* is expected to continue at a robust 4¼ percent in 2006, supported by strong commodity export prices, which have helped the region achieve current account surpluses for the third year in a row, as well as easy global financing conditions and record-low sovereign spreads. Despite the rise in world oil prices and an acceleration in credit growth, inflation is expected to ease further to 5¾ percent in 2006 from 6¼ percent in 2005. The containment of inflationary pressures reflects strengthened commitments to

### Big improvement in fiscal policy

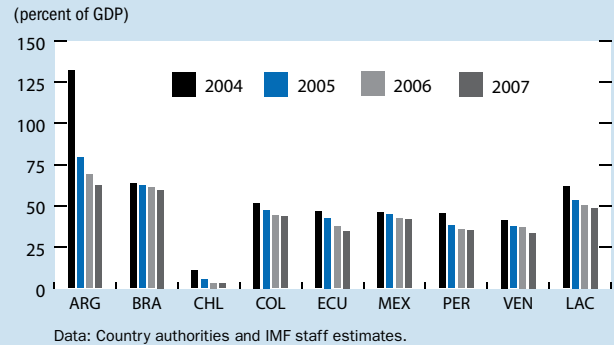
Recent macroeconomic stability both fiscal and monetary in Latin America and the Caribbean has kept inflation low and is attributable in part to improved fiscal policy and reduced public debt.



Data: IMF staff estimates.

### Better management of public debt

Several countries, including Brazil, Colombia, Mexico, Panama, Peru, and Venezuela, have actively improved debt structures, which, coupled with the drop in debt ratios, has reduced vulnerability to external shocks.



Data: Country authorities and IMF staff estimates.

price stability—in some cases supported by explicit inflation targets—and to greater exchange rate flexibility.

Fiscal positions have also continued to improve, with primary surpluses averaging 3¼ percent of GDP in 2005, compared with 2¾ percent in 2003–04. This improvement reflected continued buoyancy of revenues, but the recent acceleration of primary spending in some countries will need to be monitored closely. Public debt–GDP ratios have also declined, and many countries have taken advantage of favorable global capital market conditions to deepen local currency markets and to buy back and refinance foreign currency debt. Moreover, by end–2005, Brazil and Argentina had repaid all outstanding obligations to the IMF, and Uruguay made a sizable advance repayment in March 2006.

The region's near-term prospects are good, but there remain risks, including the potential for high, volatile oil prices to dampen demand in oil-importing countries in the region and also trading partners, and for a possible abrupt tightening of credit in global financial markets. Therefore, a key message of the report is the importance of using the favorable regional and global situation to cement commitments to disciplined fiscal and monetary policies, including through firmer control over public spending, and to exchange rate flexibility, and to tackle underlying impediments to poverty reduction and growth. Paving the way for faster productivity and income growth will require reform of financial sectors, improvements in the business climate and natural resource management, and greater openness to international trade. ■



## Dealing with scaled-up aid

With the expected doubling of aid to Africa by 2010, the continent's policymakers will face a host of macroeconomic challenges. How recipients and their development partners can address these challenges was the focus of a workshop hosted by the IMF and the U.K. Department for International Development (DfID) in Washington April 19–20. African finance ministers, central bank governors and other officials, donors, academics, and representatives from multilateral development institutions took up seven issues that recipients of sharply increased aid are likely to deal with.

**Appreciating exchange rates.** Aid recipients can experience a large real exchange rate appreciation that reduces export competitiveness (Dutch disease). To offset such a loss of competitiveness, they can use aid to improve productivity. There is little evidence to date that large aid inflows have significantly reduced the competitiveness of African exports, but participants cautioned that policymakers should be alert to this phenomenon. In certain circumstances, they observed, countries should use some aid to build up reserves.

**Coordinating fiscal and monetary policies.** Managing scaled-up aid will require effective coordination between different parts of government, especially central banks and finance ministries. It is often a challenge for policymakers to determine the appropriate trade-off between exchange rate appreciation and interest rate increases.

**Increasing the supply response.** There was a consensus on the importance of increasing the supply response to aid inflows. A strong response—in the form of improved productivity and higher employment—can mitigate Dutch disease. Countries will need to create a favorable business environment to attract both foreign and domestic investment and address supply bottlenecks, such as underdeveloped infrastructure and agriculture. Thus, they must strike a balance between spending aid resources on social and productive sectors. An open trade regime can both enhance domestic competition and alleviate the exchange rate pressures stemming from increased aid.

**Strengthening institutions and governance.** Participants emphasized the importance of



From right: James Musoni (Finance Minister of Rwanda), Emmanuel Tumusiime-Mutebile (Central Bank Governor of Uganda), Amanda Rowlett (DfID), and Tony Venables (Professor, London School of Economics).

strengthening institutions and governance to manage scaled-up aid and improve the investment climate for the private sector. Sound fiscal institutions, especially strong public financial management, would facilitate aid absorption. To use aid effectively, countries need to strengthen government's capacity to manage aid flows and the private sector's capacity to operate in an open, competitive environment.

**Formulating an exit strategy.** Aid recipients should plan to depend less on aid over time. They will thus need to increase their revenue before aid tapers off—for example, by broadening the tax base and eliminating exemptions rather than by raising tax rates.

**Reducing aid volatility.** Aid volatility exacerbates budgetary management—a recurring theme at the workshop. The need to address these problems will become even more urgent as African countries receive more aid. Long-term aid commitments by donors would increase predictability.

**Identifying key issues and policies.** Finally, participants stressed that scaling-up scenarios would help countries and donors identify key issues and help countries adopt policies to absorb higher aid flows. The macroeconomic challenges of managing scaled-up aid are substantial, but participants were confident that these challenges could be met. ■

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