United Nations A/61/136

# General Assembly

Distr.: General
12 July 2006

Original: English

**Sixty-first session**
Item 50 (b) of the preliminary list*
**Macroeconomic policy questions**

# International financial system and development

## Report of the Secretary-General

*Summary*

The present report, submitted in response to the request contained in General Assembly resolution 60/186, complements the reports of the Secretary-General on follow-up to and implementation of the outcome of the International Conference on Financing for Development (A/61/__), and on debt crisis and development (A/61/__). It surveys the recent evolution of international official and private capital flows to developing countries, the growth of foreign exchange reserves and the recent efforts to reinforce the role of the international financial system in supporting financial stability.

* A/61/50 and Corr.1.

06-42755 (E) 020806

# I. Net transfer of financial resources of developing and transition economies

## A. Net resource outflows from developing and transition economies continued in 2005

1. Developing economies continued to make increasing net outward transfers of financial resources[1] to developed countries in 2005, reaching an estimated 527 billion United States dollars ($) (see table 1). The exception is the net transfers to sub-Saharan Africa, which were positive, but declined in 2005. Net transfers from countries with economies in transition to developed countries rose to $80 billion in 2005.

2. This pattern of net transfers departs from the post-war expectation that the growing populations and the relative scarcity of capital in developing countries would attract financial resources from developed countries. Instead, the major destination of net outward transfers from developing and transition economies has been to industrialized countries. These flows have been generated by growing exports and higher prices of oil and non-oil commodities.

3. This increase in net transfers has been accompanied by increasing net private capital inflows, partially offset by accumulation of official foreign reserves invested in government securities of major developed countries. The continued increase in reserve accumulation of developing countries showed substantial differences across regions. It moderated in Eastern and Southern Asia, while Western Asia and Africa continued the sharply accelerating trend that began in the early 2000s.

## B. Appropriate levels of reserve accumulation

4. There is no universally accepted definition of the necessary amount of foreign exchange reserves. Under GATT Article XII, the International Monetary Fund (IMF) is given responsibility for determining when a country's reserves have fallen to a level justifying the introduction of exchange or trade restrictions under Articles XV and XVIIIB, but IMF has never been given a mandate to determine when reserves are "excessive".

5. The introduction of floating exchange rates was meant to eliminate the need for countries to manage reserve positions. The growing integration of developing countries into international capital markets, however, has produced a marked change in factors used to assess the appropriate level of international reserves. In the absence of "collective insurance" in the form of balance-of-payments lending sufficient to meet sharp reversals in capital flows or export revenues, capital and commodity market volatility generates a rationale for higher reserve accumulation during periods of abundance to provide what has been called "self-insurance" against crises, a rationale that has motivated recent reserve accumulation in the developing world.

[1] The net financial transfer of resources statistic adds together receipts of foreign investment income and financial inflows from abroad minus payments of foreign investment income and financial outflows, including increases in foreign reserve holdings.

6. Under the Bretton Woods system, reserves equal to three to four months' value of imports had been considered as adequate. However, in a 1999 response to a request by India under a dispute on the application of Article XVIIIB, the Fund used the sum of short-term liabilities by residual maturity and the mark-to-market value of the stock of portfolio investment to measure the adequate level of reserves. Subsequently, Greenspan and Guidotti suggested that reserves should cover external liabilities coming due in one year. Others have suggested that this be amended to include three months' value of imports. Another proposal would add an amount sufficient to cover the foreign currency liabilities of the domestic banking system to domestic residents. It is generally agreed that current reserves balances are approaching levels in excess of what would be required by a more rational system of reserve pooling such as IMF was originally created to provide, or rational levels of "self-insurance". To assess this phenomenon, table 3 provides regional averages of the ratio of reserves to short-term liabilities.

7. Only when adequate reserves have been determined is it possible to calculate the cost of excess reserves. When this cost is measured by the difference between domestic interest rates and external rates, the low level of interest rates in countries such as China, Malaysia and Thailand suggest that their reserves may have negligible costs or even provide net earnings, while for countries such as India and the Republic of Korea with higher interest rates, costs could be in the range of a half per cent of gross domestic product.[2] The recent increases in United States interest rates will further reduce the costs of excess reserves, while any further depreciation of the United States dollar would increase them. In the presence of policies to keep currencies stable against the dollar, or if United States interest rates provide support for the dollar, the former factor should offset the latter.

8. Some countries have already taken steps to use reserves for long-term investments in domestic infrastructure to promote development and/or investments in long-term diversified global assets that yield stable higher returns.[3] The Government of Singapore Investment Corporation that manages the country's reserves has a wide range of assets, including equities, real estate and commodities. In 2005 the Korea Investment Corporation was created to manage $20 billion of the Republic of Korea's foreign exchange reserves, with a mandate to achieve sustainable returns. In 2006 China's State Administration of Foreign Exchange announced that it will "actively explore ways of investing foreign exchange more efficiently".

## C. High levels of net private capital flows to developing and transition economies sustained

9. The high level of net private capital flows to developing countries of 2004 was sustained in 2005, while net flows to transition economies in 2005 increased substantially from their 2004 level (see table 2). These levels of net capital flows

[2] See Genberg, H., McCauley, R., Park, Y. C. and Persaud, A., *Official Reserves and Currency Management in Asia: Myth, Reality and the Future*. International Centre for Monetary and Banking Studies, Geneva, 2005.

[3] See Summers, L., "Reflections on global account imbalances and emerging markets reserve accumulation", L.K.Jha Memorial Lecture, Reserve Bank of India, Mumbai, India, 24 March 2006.

reflected the declining trend in risk premiums on emerging market investments, as measured by yield spreads on emerging market bonds. That they have reached a historical low in early 2006 has raised concerns that premiums on emerging market securities may not adequately reflect risks to investors.

10. Both favourable external factors and conditions specific to emerging market economies contributed to this trend. Sustained strengthening of global economic growth, low interest rates and ample liquidity generated a search for yield in international investment and an appetite for risk. The strong economic performance and better external debt profiles of an increasing number of emerging market countries have steadily improved their creditworthiness, leading to credit upgrades by major credit rating agencies. As a result, the investor base of emerging market financial instruments has continued to broaden to institutional investors and a wider cross-section of international investors. The net effect of this on the volatility of investment in emerging markets is unclear, however.[4]

11. These conditions also supported strong growth in international investment in local currency bonds and stocks of emerging markets. While local currency investments have transferred direct currency risk from emerging markets to investors, they are not immune to interest rate risk. In addition, emerging market exchange rates remain susceptible to downward pressure from a sell-off of local currency securities, as was evident in May 2006.

12. Signs of rising inflation and further monetary tightening in the United States increased volatility in international financial markets in the second quarter of 2006. The rise in emerging market risk premiums underscored the vulnerability to rising global interest rates and an economic slowdown. Meanwhile, the risk of a disorderly unwinding of large global imbalances and the resultant financial instability persists. The international community has recognized that action for the orderly resolution of these imbalances is a shared responsibility, with concerted and sustained implementation by every country involved, and has called for the promotion of multilateral action towards that end (see below).[5]

13. Foreign direct investment in developing countries increased strongly in 2005 and remained the largest component of net private capital flows to these countries while robust foreign direct investment in transition economies was also sustained. Foreign direct investment growth was broadbased, bolstered by favourable financing conditions, buoyant profits of transnational corporations and high commodity prices. The latter strengthened foreign direct investment flows to resource-rich countries in Africa, Latin America, Western Asia as well as the Commonwealth of Independent States, particularly the Russian Federation. The increase in foreign direct investment was mainly the result of increased cross-border merger and acquisition activity while greenfield investment weakened, with substantial declines in Latin America. Underlying strong net flows of foreign direct investment to developing countries were growing outward flows from developing countries, particularly a number of countries in East and South Asia.

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[4] See *World Economic and Social Survey 2005: Financing for Development* (United Nations publication, Sales No. E.05.II.C.1), chap. III.

[5] Communiqué of the International Monetary and Financial Committee of the Board of Governors of the International Monetary Fund, 22 April 2006, para. 3.

14. Net investment in emerging market equities increased in 2005, particularly to Latin America and Asia, as stock prices in these regions rose to record highs along with a growing presence of foreign investors in local markets. The boom in oil also fuelled increased capital flows into equities in the Gulf Cooperation Council countries. The performance of commodity-related stocks was the strongest contributor in a number of markets.

15. Net bond issuance increased strongly in 2005 for all emerging market regions, except the oil-exporting countries of Western Asia and Africa. Net issuance was particularly large in Latin America as Argentina returned to the international bond market, as did Ecuador at year end. For emerging markets as a whole, issuance was evenly divided between sovereign and corporate bonds. Sovereign issuers took advantage of favourable financing conditions to prefinance 2006 credit requirements. These conditions also supported growing international investment in local currency bonds, through local bond markets, particularly in Latin American countries and Turkey. The growth of internationally issued local currency bonds also accelerated, albeit from a small base, with increased issuance by Brazil and Colombia.

16. The recovery in net commercial bank lending to emerging markets that began in 2003 continued in 2005. Lending increased to borrowers in emerging markets in East and South Asia and the oil exporters of Western Asia as well as the Russian Federation. But outflows of oil revenues from major oil exporters through international banks and deposits by Asian commercial banks and central banks in international bank accounts offset the increase in commercial bank lending.

## D. Official development assistance increased substantially in 2005

17. Preliminary data from the Development Assistance Committee (DAC) of the Organization for Economic Cooperation and Development (OECD) show total official development assistance (ODA) to the developing countries in 2005 increasing 31.4 per cent in nominal terms (8.7 per cent in real terms) to $106.5 billion from 2004. The average share of ODA to gross national income of all DAC countries rose to 0.33 per cent, up from 0.26 per cent in 2004. OECD predicts that ODA will grow by an average annual rate of around 8 per cent between 2004 and 2010. These increases, however, will have to be made at a time when pressures in developed countries to keep fiscal balances in check are great, and the projected ODA total for 2010 ($130 billion) still falls short of the $150 billion which, according to some estimates, would be needed annually by developing countries to meet the Millennium Development Goals.

18. Assessing the composition of aid flows remains paramount. For example, the main factors behind the large increase in aid in 2005 were once over debt cancellations of around $19 billion to Iraq and Nigeria, and over $2 billion in aid to the victims of the 2005 tsunami. Thus ODA in 2006 and 2007 is expected to decline as the volume of debt relief declines. Moreover, in order for the developing countries to have a better chance of achieving the Millennium Development Goals, aid must be directed to the poorest and least developed among the developing countries. Although a few individual donors met the target of 0.15-0.20 per cent of their gross national income to assist the least developed countries, the amount of aid

for the least developed countries in 2004 after exclusion of the emergency, debt relief and reconstruction components, was lower in real terms than in 1990.

# II. Strengthening the international financial architecture

## A. Global financial governance: revitalizing international monetary cooperation

19. The International Monetary Fund has recently embarked on a medium-term strategic policy review[6] of its role in the international financial system. The major conclusion of this review is that since international policy coordination is most effective when undertaken within a multilateral institution, the role of IMF in the area of multilateral surveillance should be strengthened.

20. The fact that industrial countries have not required financial support from IMF since the 1970s has led to a decline in the influence of the Fund over the exchange rate and macroeconomic policies of those countries. The large increases in foreign exchange reserves held by many emerging market countries as self-insurance against crises, accompanied by significant declines, including through early repayment of outstanding loans, of Fund credit to these countries, have further reduced the influence of IMF. In addition, changes in the international financial architecture and in IMF operations have continued to erode its original role as arbiter of the international monetary system.

21. Thus, steps should be taken to restore IMF in its primary role as the central institution charged with fostering global financial stability and growth, and as the forum for cooperation and decision-making on the global international monetary and financial system. Given its broad representation, the Fund is clearly the most appropriate forum for such cooperation. The Fund should contribute more to international policy coordination in order to address risks to the international monetary system and global growth. In this regard, it has been suggested that IMF needs to redefine itself as a global financial institution rather than as a lending institution to developing countries, and to find the ways to engage all member countries.

22. At its 2006 spring meeting, the International Monetary and Financial Committee supported proposals to strengthen the role of IMF in addressing systemic issues, including correcting global imbalances, through enhanced multilateral dialogue. The aim of the proposals is not only to catalyse multilateral debate on global economic issues, but also to bring countries together to consider joint actions. A multilateral approach will require a major commitment on the part of countries as well as politically difficult decisions at the national level. Yet, better coordination and cooperation is the best alternative to either more complex institutions of global governance or the risk of persistent imbalances that are resolved by global crises whose costs are increasingly borne by developing countries.

23. The effectiveness and credibility of IMF as a universal and cooperative institution, as a global coordinator of joint policy actions, is dependent on the

[6] "The Managing Director's Report on Implementing the Fund's Medium-Term Strategy", International Monetary Fund (5 April 2006), available from http://www.imf.org.

adequate voice and participation of all its members. After several years of extensive deliberations, the need for changes in representation and in the distribution of quotas to reflect increased economic importance of many emerging market economies, especially in Asia, and to ensure that low-income countries are adequately represented has been recognized.

24. A two-stage approach to the reform, in which ad hoc quota increases for the most underrepresented countries would be agreed in the near term, seems to have major support. These increases should be considered at the annual meeting in September 2006. Other more complex issues such as reform of a quota formula and consequential realignment of quotas; reform of basic votes; the roles, responsibilities, size and composition of the Executive Board; the process for selection of senior management would be taken up at a later stage over the medium term. For this approach to produce results, it is clear that the second stage must be credibly linked to the first and have a clear deadline to ensure concrete action on comprehensive reform.

25. To perform its functions effectively, the Fund needs to be properly financed. However, owing to a drop in income caused by a drop in members' needs for IMF support lending, the long-term sustainability of the Fund's finances has been questioned since margins on lending are no longer sufficient to support IMF operations. The International Monetary and Financial Committee has thus instructed the Managing Director to develop proposals for more predictable and stable sources of income. As a first step, the Executive Board decided in April 2006 to establish an Investment Account and to transfer to the Account an amount equivalent to the Fund's reserves.[7]

## B. Multilateral surveillance

26. There is a consensus that multilateral surveillance and the associated process of policy coordination and cooperation should continue to be at the core of crisis prevention efforts. In particular, with the advent of globalization, there is a need for more candid and effective surveillance over systemically important economies, with specific attention given to the impact of their policies on other countries and the international economy. Most importantly, IMF should put greater emphasis on assessing and highlighting the responsibility of major countries and country groupings for the occurrence, management and reduction of large imbalances in the world economy, with special attention on exchange rate developments and their impact on global financial stability. To be effective, the Fund needs to go far beyond simple analysis, and develop ways to stimulate collaborative efforts among these countries to contribute to orderly adjustment.

27. The ability of IMF to increase its influence on the global coherence of major countries' policies is hampered by the fact that these countries no longer need Fund resources, and thus implementation of Fund advice is voluntary. This has led many observers to suggest that the surveillance function should become independent of any other IMF activity. The independence of surveillance activities is considered

[7] "IMF Executive Board Reviews Fund's Income Position, Sets Rate of Charge for FY 2007 and Approves Establishment of an Investment Account", International Monetary Fund, Press release No. 06/90 (4 May 2006), available from http://www.imf.org.

especially important for the large countries, as well as for regional and global surveillance. It has also been suggested that there should be increased transparency, candour and more specificity in the surveillance activities, as well as change in the focus of multilateral surveillance from a bottom-up to a top-down approach. This implies the evaluation of the needs and objectives of the international monetary system and then the assessment of compatible policies in the systemically important countries.

28. To strengthen further the surveillance work at the multilateral and regional levels, IMF member countries agreed at the 2006 Spring Meetings to establish a new process of multilateral consultations. It will bring together countries which have systemic influence on the global economy and, where relevant, entities formed by groups of countries. The aim of such an exercise is to build common vision for action on issues of systemic importance.

29. The challenge is to translate this agreement into effective coordinated actions. The first such consultations, involving China, the Euro Area, Japan, Saudi Arabia and the United States, will focus on the issue of global imbalances. It will concentrate on spillovers and linkages among these and other economies, rather than on domestic economic issues.[8]

30. As for bilateral country surveillance, it has been agreed that further consideration should be given at the September 2006 International Monetary and Financial Committee meeting to tailoring both the timing and intensity of this activity to countries' circumstances and the extent to which the Fund can add value. This includes measures to streamline surveillance by focusing on country needs rather than to rely on a "standardized" approach. Also, it has been stressed that surveillance should become more focused and selective, with more emphasis on monetary, financial, fiscal and exchange rate policies with less concentration on structural policies that are beyond the Fund's core areas of expertise.

31. A more selective and focused approach is considered instrumental to help shape the Fund's advice to better recognize the constraints and opportunities within countries. An important element of this is better integration of technical assistance into the surveillance process to ensure that members have the expertise and capacity to implement necessary changes.

32. International capital flows are among the most important features that have affected the Fund in the last decade. There is a growing consensus that the IMF Articles of Agreement do not need amendment to provide formal jurisdiction to deal with capital account issues. At the same time, the Strategic Review emphasized the growing need to deepen understanding of capital movements, including the causes and potential policy implications of the pro-cyclicality of international capital flows, to expand the analysis of the financial sector and capital markets and better integrate this analysis with macroeconomic issues. It is recognized that the Fund needs to conduct more research in this area to be able to use surveillance, to effectively advise individual countries on which strategies are best suited for their particular capital account liberalization process, or their autonomous decision to maintain restrictions on capital mobility.

[8] "IMF to Begin Multilateral Consultations with Focus on Global Imbalances", International Monetary Fund, Press release No. 06/118 (5 June 2006), available from http://www.imf.org.

33. The process of financial globalization has produced sustained exchange rate overshooting. Accordingly, particular emphasis in surveillance is now being put on the evaluation of the consistency of exchange rate and macroeconomic policies with national and international stability. As an important part of this evaluation, the work on estimating equilibrium exchange rates for industrial countries conducted by the Consultative Group on Exchange Rates will be expanded to cover all major emerging market currencies. It has also been suggested that the results of these assessments should become a point of reference for article IV surveillance discussions and be published in the *World Economic Outlook*. Also, an ongoing review of the 1977 decision on exchange rate surveillance has noted the need to update guidance on the treatment of exchange rate regimes, the notion of disequilibrium, and the procedures for monitoring by the Fund.

34. While there is a broad consensus that exchange rate policies are an important component of surveillance and that there should be more depth, candour and even-handedness in dealing with such issues, there are strong doubts about the usefulness of narrowly based estimates of equilibrium exchange rates. Many observers have argued that it is very difficult to define such an "equilibrium" and that assessing the "right" exchange rate remains largely judgemental. Publishing estimates of exchange rate over or undervaluation could thus be counterproductive and may adversely affect highly vulnerable markets in emerging economies.

35. Another important issue in improving surveillance is how to make Fund's recommendations more effective. The Strategic Review stresses that the Fund should engage the public more broadly, through a wider communications strategy to place its policy recommendations at the centre of national discussion of reforms. It will not be easy, however, to reconcile this approach with the Fund's traditional role as confidential adviser.

## C. International standards and codes

36. The promotion of greater financial stability through development, dissemination, adoption, and implementation of international standards and codes was launched by IMF and the World Bank in 1999. Its success in creating broad coverage has meant that efforts can now focus on updates and follow-ups according to country needs in order to minimize their resource implications and maximize outcomes.

37. According to the Financial Stability Forum, the greater emphasis now given to international standards has generated greater interest in the arrangements for setting those standards. At its meeting in March 2006, the Forum reviewed the practices of the key international standard-setting bodies with regard to the transparency, governance and risk focus of their activities. It also considered the challenges, and potential implications for financial stability, of a recent series of international, regional and national regulatory initiatives. In this regard, members noted the desirability of continued dialogue with the private sector on regulatory initiatives.[9]

38. In July 2005, with the publication of guidance on two technical matters, the Basel Committee on Banking Supervision concluded the policy development stage

[9] "Fifteenth Meeting of the FSF (Sydney, 17 March 2006)", Financial Stability Forum, available from http://www.fsforum.org.

of Basel II (International Convergence of Capital Measurement and Capital Standards: a Revised Framework). While additional refinement of the Revised Framework published in June 2005 might be desirable, it is more important that there be a pause to allow banks to proceed to the implementation of the Framework.[10]

39. Another important issue is to ensure consistency of implementation of Basel II across borders while avoiding a "one-size-fits-all" approach. The Basel Committee's Accord Implementation Group is engaged in outreach efforts with supervisors in different member countries in order to promote cross-border cooperation. This cross-border work has accelerated over the past year. For instance, in June 2006, the Basel Committee issued a paper setting forth general principles of information sharing in the context of Basel II implementation.[11] It has been recognized that, going forward, much more effort and cooperation will be needed to successfully resolve international implementation issues.

40. On 28 September 2005, the European Parliament passed the Capital Requirements Directive thus paving the way for its adoption by the 25 European Union member countries. Its adoption will put European banks and investment firms on track to implement Basel II from January 2007, in accordance with the Basel Committee schedule. An almost similar implementation schedule has been proposed for Japanese banks.

41. Unlike in the European Union and Japan, implementation of Basel II in the United States may be delayed by at least one year, owing to concerns about possible competitive disadvantages for smaller institutions that will remain on Basel I[12] and concerns about the significant drop in capital requirements for some large United States banks under Basel II that was projected by the quantitative impact studies. The implementation plan set forth in the draft Basel II Notice of Proposed Rulemaking, approved in March 2006, incorporates extensive safeguards to limit the potential for unintended consequences, including any possibility of a large decline in required capital levels.[13]

42. In many emerging economies Basel II is seen as an important catalyst to accelerate the introduction of best risk management practices within the banking sector in the medium and long term. According to the Financial Stability Institute, close to 90 non-member countries intend to adopt Basel II by 2010.[14] The Basel Committee itself has indicated, however, that moving rapidly to introduce the Accord is not the first priority for non-G-10 countries, which should instead first concentrate on building a strong supervisory foundation. In this regard, immediate

[10] Jaime Caruana, "Basel II progress" (26 September 2005), available at http://www.bis.org.

[11] "Basel Committee issues principles on home-host information sharing for effective Basel II implementation", Press release (2 June 2006), available at http://www.bis.org.

[12] United States banking agencies require only those institutions with more than $250 billion in assets or more than $35 billion in foreign receivables to implement Basel II. Accordingly, only 20 or so largest banking organizations may implement Basel II. For the rest, a separate "Basel IA" framework updating Basel I will be employed.

[13] Ben Bernanke, "Basel II: Its Promise and Its Challenges", Remarks at the Federal Reserve Bank of Chicago's 42nd Annual Conference on Bank Structure and Competition, Chicago, Illinois (18 May 2006), available from http://www.federalreserve.gov.

[14] "Implementation of the new capital adequacy framework in non-Basel Committee member countries", Occasional Paper No. 4, Executive Summary, Financial Stability Institute (July 2004), available from http://www.bis.org/fsi.

implementation of some of the principles of Pillars 2 and 3 of the New Accord, addressing supervisory practices and expanded market discipline as preparation for the formal transition to Basel II has been suggested as a first priority.[10] A special regime, similar to that being worked out in the United States, might be more appropriate for financial institutions in developing countries.

43. Along with Basel II, the Basel Committee continued its work to further enhance supervisory practices around the world. In April 2006, it issued for public comment updated versions of the 1997 *Basel Core Principles for Effective Banking Supervision* and the 1999 *Core Principles Methodology*.[15] The *Core Principles* have been used by countries as a benchmark for assessing the quality of their supervisory systems and for identifying future work needed to achieve a baseline level of sound supervisory practices. According to the Committee, the revised *Core Principles* incorporate significant changes that have occurred in banking regulation since 1997. The document has also become more flexible to ensure efficient supervision of both advanced and less advanced banking systems as well as more objectivity and comparability in the assessment of different countries' compliance with the *Core Principles*. The exercise has been carried out in close cooperation with many non-member supervisors.

44. Corporate governance has continued to attract considerable national and international attention in the light of a number of high-profile breakdowns in the governance process. In February 2006, the Basel Committee released guidance on enhancing governance for banking organizations. The guidance places particular focus on activities of banking organizations conducted through structures which may lack transparency, or in jurisdictions that pose impediments to information flows.

45. The important process of harmonization of accounting standards to safeguard financial stability began several years ago and is being coordinated by the International Accounting Standards Board. A number of international financial reporting standards have been finalized and have been applicable to all listed companies in the European Union since 1 January 2005. It is estimated that by 2007 more than 90 countries will either permit or require the use of the standards for publicly traded companies.[16]

46. Also, several countries are working to bring their national standards into line with the international financial reporting standards. The Financial Accounting Standards Board of the United States and the International Accounting Standards Board are working towards finding common ground between the international financial reporting standards and the United States Generally Accepted Accounting Principles within a joint project aimed to develop a common conceptual framework.

47. Common financial reporting is considered a major step towards improving the efficiency of international financial markets and enhancing investor confidence in financial reporting. One of the most important initiatives has been to standardize the use of market pricing in all reporting. However, in the presence of high volatility

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[15] "Basel Committee seeks comments on updated banking supervision principles", Press release (6 April 2006), available from http://www.bis.org.

[16] Malcolm Knight, "Global banking — paradigm shift", Speech at the Fourth Conference of the Federation of Indian Chambers of Commerce and Industry, Mumbai, India (5 October 2005), available from http://www.bis.org.

and endemic over and undershooting in financial asset markets, these measures should ensure that excess volatility and market mispricing are not exacerbated by being reflected in balance sheets, and end up introducing an excessive weight of short-term criteria into long-term portfolio allocation decisions, particularly by those agents that, by their very nature, should have a long-term focus in their investment decisions.[17] Similarly, it may be important that accounting standards should facilitate rather than constrain the use of macroprudential frameworks for financial stability, particularly forward-looking provisioning for loan losses by banks.

## D. Official liquidity provision

48. The scale and scope of and appropriate circumstances for future Fund financial support for members remain at the centre of policy debate. In one view, recent capital account crises demonstrate that the Fund's resources are insufficient to provide the required financial assistance. Hence, the limited nature of the Fund's potential financing support should be signalled more clearly and consistently to provide increased incentives for borrowing countries to implement more timely adjustment policies, for prudent risk taking by private creditors and for safeguarding the Fund's credibility. Regular access limits and the exceptional access framework should be applied predictably and consistently to ensure that Fund financing, together with adjustment policies, will contribute to restoring market confidence, and at the same time will avoid overlending and prolonged use. Also, financial assistance should be carefully considered in view of a country's overall capacity to repay.

49. Many others, however, argue that despite the rapid development and integration of international financial markets, there is still a strong rationale for the Fund to provide exceptional financing when countries face sharp declines or reversals of private capital flows. Consequently, access to liquidity during capital account crises should be commensurate with countries' potentially large-scale financing needs that may surpass normal lending limits based on members' quotas. Large-scale financing to support economic activity, employment and trade may also be necessary owing to the fact that the catalytic effects of IMF programmes have been limited. Moral hazard issues have been shown to be exaggerated. It has also been stressed that too much emphasis on the rules governing lending access could be counterproductive as each country's case tends to be different if not unique. Therefore, an adequate balance needs to be struck between rules and discretion.

50. Another issue concerns the arbitrage possibilities that exist as a result of the lack of harmonization of charges of different Fund financing facilities. This has made longer-term exceptionally large borrowing more attractive, and has also generated facility shopping, in which countries request support under the cheapest, but not necessarily most appropriate, facility. There is a broad agreement that this perverse incentive structure should be changed.

51. It has been argued that numerous reviews of various aspects of the Fund's finances over the past decade or so have resulted in an excessively complex overall financing and lending structure that should be simplified. As part of such effort, the

[17] See the 76th Annual Report of the Bank for International Settlements for 2005/2006.

Board of Directors called for the policy on time-based repurchase expectations to be ended. Also, the relevance of the Supplemental Reserve Facility should be examined, as some recent experiences in the use of this facility have not involved the specific financial needs that the facility was designed to address.

52. Using the Fund financing for crisis prevention remains among the most important unresolved issues. Since the expiration of the Contingent Credit Lines in November 2003, IMF has been exploring other ways to achieve the facility's basic objectives. The Strategic Review proposed a new high access contingent financing vehicle. The new instrument would be available to members with strong macroeconomic policies, sustainable debt, transparent reporting, but which still face balance-sheet weaknesses and vulnerabilities. Access would normally be up to 300 per cent of quota, automatically available in a single up-front purchase, and augmentable upon subsequent review. This strikes a balance between providing some assurance of financing and limiting exposure before the size and policy response to a crisis are known. Financing beyond the initial drawing would take into account the emerging needs and policy requirements. Conditionality would focus on addressing underlying vulnerabilities, and performance criteria would be set to broadly indicate when policies go off track.

53. Still, reconciling the different demands on such an instrument will likely be very difficult. Any solution should balance countries' need for assurances that they can draw on the Fund's resources quickly and in sufficient amounts should a capital account crisis occur, without being seen by the markets as a potential crisis case, with some guarantee of appropriate policy response to address the underlying cause of crisis and of timely repayment to the Fund. Also, insurance instruments inherently face an exit problem that should be addressed. Indeed, the termination of arrangements with participating countries that allowed policy slippages may cause an adverse market reaction.

54. There have also been proposals supported by the International Monetary and Financial Committee to explore the possibilities for more interaction between the Fund and regional financing or reserve pooling arrangements. It has been argued that the Fund can play a more important role here, focusing on surveillance of pool members and signalling sound policies. Such Fund activities, by strengthening confidence of the pool participants in the economic policies of each other, may contribute to an increase in scale, scope and effectiveness of regional financial arrangements.

## E. Crisis resolution

55. There has been important progress in introducing market-based approaches to the orderly and cost-efficient resolution of financial crises. The collective action clauses in emerging sovereign bond issues have increased, in value terms, from approximately 31 per cent at the end of 2002 to approximately 60 per cent as of end-February 2006.[18] Thus far, the inclusion of collective action clauses has not had an adverse impact on the cost of issuance.

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[18] "Progress Report on Crisis Resolution", International Monetary Fund (21 September 2005), p. 3; "Report of the Managing Director to the International Monetary and Financial Committee on the IMF's Policy Agenda", International Monetary Fund (20 April 2006), available from http://www.imf.org.

56. Since the release of the *Principles for Stable Capital Flows and Fair Debt Restructuring in Emerging Markets* agreed by four emerging market issuers — Brazil, Mexico, the Republic of Korea and Turkey — and by the Institute of International Finance and the International Primary Market Association in November 2004, following endorsement by the G-20, efforts have been made to broaden consensus among emerging market issuers and private sector creditors. About 30 countries have already expressed support for the *Principles*[19] and according to the Institute, the *Principles* are already utilized as best practices for data transparency and investor relations by several countries. They have also helped in discussions between authorities and creditors in some restructuring cases.

57. Emerging market issuers and private sector creditors are now developing a process for monitoring and assessing implementation of the *Principles*. This work should identify circumstances where early correction could prevent crises from unfolding, offer guidance for the restructuring process in cases where debt restructuring is needed as well as facilitate continued relevance of the *Principles* in light of changing market characteristics, and help reveal whether the right balance has been achieved between providing sufficient guidance and allowing flexibility.

58. In March 2006, the Institute of International Finance established a Group of Trustees, comprised of senior public and private sector representatives from developed and developing countries. The mandate of the Group includes assessing the evolution of the international financial system as it relates to emerging markets; reviewing the development of the *Principles* including their implementation; proposing modification of the *Principles* if needed.[20]

59. While the market-based approach to crisis resolution has witnessed progress in recent years, the role of official sector is still not well defined owing to the lack of clear guidelines for IMF involvement in the process of sovereign debt restructuring. The Argentine case has demonstrated that leaving the debt restructuring to the market participants may not be the most efficient approach. Rather, as a collective institution, the Fund could play a more active coordinating role to make restructuring more sustainable and comprehensive and to enhance its own role as impartial arbiter in the international financial architecture. Accordingly, it has been agreed that the Fund's interaction with creditors and debtors in the debt restructuring process, including the "lending into arrears" policy and information dissemination, should be re-examined.

60. The Strategic Review has reaffirmed that the insistence on progress towards resolution of external payments arrears should remain a condition for Fund lending as the existence of arrears damages confidence in the debtor and in the system as a whole, so their regularization is in the interest of all parties. In this regard, it is considered necessary to review what constitutes a good faith effort on the part of both debtors and creditors to resolve sovereign arrears. The Strategic Review also proposes that Fund lending during a debt restructuring should depend on an agreed fiscal and macroeconomic framework compatible with sustainable debt paths.

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[19] "Progress Report ...", p. 4.

[20] "Trichet, Meirelles and Gyohten to Lead New Group of Trustees for Emerging Markets Finance Initiative", Institute of International Finance press release (30 March 2006), available from http://www.iif.org.

61. The dissemination of timely and accurate information by the Fund in the form of debt sustainability analysis is considered to be of primary importance. This may facilitate restructuring negotiations between the debtor and its private creditors, by providing them with common assessment of the problems to be resolved.

## F. International Monetary Fund engagement with low-income countries

62. The role of the Fund in supporting the global development partnership set out in Monterrey has been the subject of extensive debate. It is generally agreed that IMF should not be turned into another development institution. Multilateral development banks and bilateral donors are in better position to provide medium- and long-term development assistance. The Fund should rather stick to its core areas of expertise, which, in case of low-income countries, means addressing macroeconomic aspects of the development challenge, including maintaining macroeconomic stability and debt sustainability, through policy advice, capacity-building and, when necessary, financial assistance.

63. In this respect, one of the most important areas of work has been identified as advising low-income countries on how to deal with the macroeconomic effects of higher aid flows. This includes improving public expenditure management and domestic resource mobilization, as well as increasing absorptive capacity. No less important is finding ways to deal with real exchange rate appreciation resulting from rising aid flows. At the same time, there is no consensus on the Fund taking on the role of assessing the scale and scope of donors' future aid flows, i.e. on the Fund acting as a gatekeeper or fund-raiser.

64. In October 2005, the Executive Board of the International Monetary Fund approved a proposal establishing Policy Support Instruments for Poverty Reduction and Growth Facility-eligible members. The Instrument will provide policy support and signalling to low-income countries that do not need or want financial assistance from IMF, but still want the Fund to support their poverty reduction programmes and endorse the quality of their policies. The Instrument will be available on a voluntary basis and based on policies that meet the standard of upper credit tranche conditionality. Unlike article IV consultations, the Instrument will provide an explicit endorsement of a low-income member's policies. The Instrument is supposed to provide a mechanism for regular provision of policy advice and of an assessment of country policies useful for donors and markets. Also, more frequent use of assessments under the Instrument is intended to fill information gaps, thereby reducing the risk of unwarranted interruptions of donor support. The Policy Support Instrument signal is seen to be particularly useful to countries with strong macroeconomic fundamentals that nonetheless continue to depend on donors for development financing or that are in transition to market-based financing. Nigeria is the first country to take advantage of this aspect of the Instrument as part of its Paris Club debt reduction package.

65. According to the International Monetary and Financial Committee, the Instrument would not replace, but complement the Poverty Reduction and Growth Facility, which would remain the main instrument for IMF financial support for low-income countries. In this regard, it has been decided to establish a new "shock window" within the Facility for low-income countries that do not have a Facility to

help these countries cope with adverse short-term balance-of-payment shocks, mainly in their terms of trade. Countries that are "on-track" with Policy Support Instrument conditions would get rapid access to the window in the event of a shock.

66. By supporting the Multilateral Debt Relief Initiative, the Heavily Indebted Poor Countries Initiative and other debt relief initiatives, both creditors and debtors agreed to a new framework designed to end the lend-and-forgive cycle in low-income countries. To ensure that debt prospects improved by debt relief will not deteriorate through excessive additional borrowing, IMF is expected to expand its assistance in building fiscal and debt management capacity in low-income countries as well as to strengthen debt monitoring under the joint Bank-Fund debt sustainability framework. In this regard, the International Monetary and Financial Committee urged all creditors to work with IMF and the World Bank to adhere to responsible lending.[21] Strong efforts will be needed to ensure that the beneficiaries of debt relief do not accumulate excessive debt again.

# III. Policy conclusions

67. **Multilateral surveillance and the associated process of policy coordination and cooperation remain at the centre of crisis prevention efforts. With deepening financial integration, the focus of surveillance is increasingly on the stability of the system as a whole. The recent agreement to strengthen IMF surveillance by engaging systemically important countries and, where relevant, entities formed by groups of countries in multilateral consultations on issues of systemic or regional importance is a welcome development. These consultations should become a venue for multilateral debate and an important vehicle for joint policy action.**

68. **The effectiveness of multilateral dialogue will depend, however, on adequate voice and participation of all countries. Therefore, it is critically important that an ongoing consideration of the governance structure of international financial institutions should result in prompt decisions on comprehensive reform and the specification of a timetable for action.**

69. **In a number of emerging market countries, despite strong policies and massive reserve holdings, underlying structural vulnerabilities still exist. This calls for a further exploration of appropriate international and regional financial instruments to help prevent and manage crises. Also, the modalities of official sector response to cases of sovereign debt restructuring and arrears should be better clarified.**

70. **The international community should continue to assist low-income countries in addressing the macroeconomic aspects of the development challenge, including maintaining macroeconomic stability and debt sustainability. In this regard, it is increasingly important to provide effective policy advice and technical assistance in analysing and managing the macroeconomic impact of an expected rise in aid flows. There is also a need to monitor debt sustainability in order to avoid a renewed build-up of excessive debt which has been reduced as a result of recent debt relief initiatives.**

[21] Communiqué of the International Monetary and Financial Committee of the Board of Governors of the International Monetary Fund (22 April 2006), available from http://www.imf.org.

71. **As a result of the increasing number of international, regional and national regulatory initiatives, many developing countries are facing multiple reform goals with only limited financial and implementation capacity. Hence, prioritization is important in meeting the challenge of strengthening the domestic financial system.**

Table 1
**Net transfer of financial resources to developing economies and economies in transition, 1995-2005**
(Billions of United States dollars)

| | *1995* | *1996* | *1997* | *1998* | *1999* | *2000* | *2001* | *2002* | *2003* | *2004* | *2005* |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Developing economies | 49.4 | 26.5 | -0.1 | -34.0 | -123.0 | -187.9 | -153.7 | -202.2 | -294.6 | -367.8 | -526.9 |
| Africa | 6.0 | -5.5 | -4.7 | 15.6 | 4.1 | -27.7 | -16.8 | -6.7 | -21.2 | -34.5 | -57.8 |
| Sub-Saharan (excluding Nigeria and South Africa) | 7.6 | 5.4 | 7.5 | 12.1 | 8.9 | 2.9 | 7.0 | 5.3 | 6.8 | 4.5 | 5.1 |
| Eastern and Southern Asia | 22.5 | 18.8 | -32.7 | -128.4 | -143.0 | -124.8 | -117.2 | -146.5 | -172.5 | -186.2 | -243.0 |
| Western Asia | 22.6 | 12.7 | 14.0 | 34.1 | 5.5 | -34.3 | -23.8 | -17.4 | -40.9 | -69.1 | -132.7 |
| Latin America | -1.7 | 0.6 | 23.3 | 44.7 | 10.3 | -1.1 | 4.2 | -31.7 | -60.1 | -78.0 | -93.4 |
| Economies in transition | -2.5 | -6.1 | 2.9 | 3.6 | -23.7 | -49.4 | -28.7 | -24.8 | -32.8 | -53.5 | -80.1 |
| Memorandum item: Heavily indebted poor countries | 6.8 | 7.2 | 7.5 | 9.0 | 10.1 | 8.3 | 8.3 | 10.4 | 9.6 | 10.1 | 11.8 |
| Least developed countries | 12.0 | 10.4 | 9.3 | 12.6 | 11.1 | 5.6 | 9.0 | 6.6 | 8.1 | 5.9 | 7.1 |

*Source*: United Nations Department of Economic and Social Affairs, based on International Monetary Fund (IMF), *World Economic Outlook* (April 2006), and IMF, *Balance of Payments Statistics*.

Table 2
**Net financial flows to developing economies and economies in transition, 1995-2005**
(Billions of United States dollars)

| | *1995* | *1996* | *1997* | *1998* | *1999* | *2000* | *2001* | *2002* | *2003* | *2004* | *2005* |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Developing countries** | | | | | | | | | | | |
| Net private capital flows | 135.0 | 202.7 | 172.6 | 41.0 | 63.8 | 71.7 | 43.4 | 41.5 | 102.4 | 171.6 | 165.2 |
| Net direct investment | 82.4 | 100.6 | 130.8 | 134.7 | 150.3 | 141.1 | 153.8 | 119.6 | 136.7 | 138.5 | 174.3 |
| Net portfolio investment[a] | 31.0 | 81.7 | 40.3 | 29.6 | 71.4 | 25.4 | -74.4 | -81.4 | -6.8 | 9.5 | 22.4 |
| Other net investment[b] | 21.6 | 20.4 | 1.4 | -123.4 | -157.9 | -94.7 | -36.0 | 3.2 | -27.5 | 23.5 | -31.5 |
| Net official flows | 24.4 | -14.1 | 10.9 | 48.4 | 29.5 | -38.5 | 9.1 | 21.3 | -51.5 | -72.9 | -120.3 |
| Total net flows | 159.4 | 188.5 | 183.5 | 89.4 | 93.3 | 33.2 | 52.6 | 62.7 | 50.9 | 98.7 | 45.0 |
| Change in reserves | -82.5 | -96.7 | -96.5 | -33.1 | -88.9 | -101.7 | -108.0 | -164.3 | -311.5 | -445.9 | -481.9 |
| **Africa** | | | | | | | | | | | |
| Net private capital flows | 5.3 | 0.3 | 10.1 | 8.1 | 7.6 | 1.7 | 12.0 | 8.4 | 6.0 | 12.2 | 30.5 |
| Net direct investment | 2.2 | 3.9 | 8.0 | 6.9 | 8.9 | 10.4 | 25.1 | 16.2 | 18.0 | 18.9 | 26.5 |
| Net portfolio investment[a] | 3.5 | 3.5 | 8.1 | 3.8 | 8.9 | -2.0 | -8.8 | -0.8 | -0.9 | 4.5 | 3.6 |
| Other net investment[b] | -0.5 | -7.1 | -6.1 | -2.6 | -10.2 | -6.8 | -4.3 | -7.1 | -11.0 | -11.2 | 0.5 |
| Net official flows | 4.3 | -0.4 | -3.4 | 8.7 | 7.0 | 2.7 | -4.0 | 3.7 | 3.1 | 1.1 | -7.4 |
| Total net flows | 9.5 | -0.1 | 6.6 | 16.8 | 14.6 | 4.3 | 8.0 | 12.0 | 9.1 | 13.3 | 23.1 |
| Change in reserves | -5.1 | -8.8 | -12.2 | 2.5 | -0.9 | -16.2 | -10.3 | -5.6 | -15.1 | -39.0 | -60.3 |

| | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Eastern and Southern Asia** | | | | | | | | | | | |
| Net private capital flows | 98.6 | 115.9 | 48.4 | -54.3 | -0.4 | 4.3 | 21.1 | 23.9 | 68.2 | 126.3 | 55.3 |
| Net direct investment | 51.5 | 53.6 | 57.3 | 57.1 | 71.4 | 59.7 | 53.9 | 51.9 | 70.3 | 61.7 | 73.7 |
| Net portfolio investment[a] | 22.9 | 32.0 | 6.8 | 8.8 | 56.9 | 20.2 | -51.2 | -58.8 | 4.4 | 3.8 | -31.1 |
| Other net investment[b] | 24.2 | 30.3 | -15.8 | -120.2 | -128.8 | -75.7 | 18.4 | 30.8 | -6.5 | 60.7 | 12.6 |
| Net official flows | -4.6 | -15.9 | 14.1 | 19.7 | 1.9 | -11.7 | -11.7 | 4.6 | -17.5 | 2.1 | 5.5 |
| Total net flows | 94.0 | 100.0 | 62.5 | -34.6 | 1.5 | -7.4 | 9.4 | 28.5 | 50.7 | 128.3 | 60.8 |
| Change in reserves | -45.1 | -49.5 | -31.6 | -51.6 | -90.1 | -60.3 | -94.6 | -152.3 | -230.2 | -348.4 | -296.8 |
| **West Asia** | | | | | | | | | | | |
| Net private capital flows | 10.0 | 12.6 | 13.4 | 16.1 | 11.9 | 15.8 | -12.9 | 11.3 | 12.7 | 27.1 | 54.3 |
| Net direct investment | 4.0 | 3.6 | 7.8 | 9.2 | 4.1 | 1.3 | 8.1 | 6.4 | 13.3 | 9.8 | 23.0 |
| Net portfolio investment[a] | -0.3 | 0.7 | -5.8 | -8.6 | 4.3 | 4.5 | -6.9 | -6.9 | -1.9 | 15.1 | 22.3 |
| Other net investment[b] | 6.3 | 8.4 | 11.3 | 15.4 | 3.5 | 10.0 | -14.1 | 11.7 | 1.3 | 2.2 | 9.0 |
| Net official flows | 8.3 | 3.6 | -0.6 | 5.8 | 14.1 | -24.3 | -1.4 | -5.5 | -43.1 | -69.0 | -93.2 |
| Total net flows | 18.3 | 16.3 | 12.8 | 21.9 | 26.1 | -8.4 | -14.3 | 5.8 | -30.5 | -42.0 | -38.9 |
| Change in reserves | -7.1 | -18.2 | -22.6 | 7.6 | -5.8 | -22.4 | -4.9 | -4.2 | -30.8 | -34.2 | -93.3 |
| **Latin America and the Caribbean** | | | | | | | | | | | |
| Net private capital flows | 21.1 | 73.9 | 100.8 | 71.2 | 44.7 | 49.9 | 23.1 | -2.1 | 15.5 | 6.0 | 25.2 |
| Net direct investment | 24.7 | 39.6 | 57.6 | 61.5 | 65.9 | 69.6 | 66.8 | 45.0 | 35.1 | 48.1 | 51.2 |
| Net portfolio investment[a] | 4.9 | 45.5 | 31.2 | 25.6 | 1.3 | 2.6 | -7.6 | -14.9 | -8.4 | -13.9 | 27.6 |
| Other net investment[b] | -8.5 | -11.2 | 11.9 | -15.9 | -22.5 | -22.3 | -36.1 | -32.2 | -11.2 | -28.1 | -53.6 |
| Net official flows | 16.5 | -1.5 | 0.8 | 14.2 | 6.4 | -5.2 | 26.3 | 18.5 | 6.1 | -7.1 | -25.2 |
| Total net flows | 37.5 | 72.3 | 101.5 | 85.3 | 51.1 | 44.8 | 49.5 | 16.4 | 21.6 | -1.0 | 0.0 |
| Change in reserves | -25.3 | -20.2 | -30.1 | 8.4 | 7.9 | -2.8 | 1.9 | -2.2 | -35.5 | -24.3 | -31.6 |
| **Economies in transition** | | | | | | | | | | | |
| Net private capital flows | 5.5 | -0.3 | 50.1 | 2.0 | -9.0 | -21.4 | 12.7 | 23.6 | 27.2 | 21.3 | 40.5 |
| Net direct investment | 3.8 | 5.8 | 8.1 | 9.2 | 8.0 | 6.0 | 9.1 | 8.8 | 11.6 | 22.8 | 16.1 |
| Net portfolio investment[a] | -2.5 | 5.8 | 48.4 | 7.6 | -0.7 | -9.3 | 0.4 | 0.2 | 0.9 | 5.3 | 0.6 |
| Other net investment[b] | 4.4 | -11.5 | -6.4 | -15.1 | -16.4 | -18.3 | 2.9 | 14.4 | 14.7 | -6.6 | 23.8 |
| Net official flows | 1.7 | -4.3 | -0.6 | 1.8 | -1.9 | -6.3 | -5.6 | -10.7 | -8.2 | -7.6 | -15.4 |
| Total net flows | 7.4 | -4.2 | 49.5 | 3.6 | -11.0 | -27.9 | 6.8 | 12.7 | 19.0 | 13.9 | 25.1 |
| Change in reserves | -6.9 | 5.2 | -5.8 | 12.8 | -7.4 | -23.2 | -16.5 | -18.8 | -35.2 | -65.2 | -83.0 |

*Source*: International Monetary Fund (IMF), *World Economic Outlook Database* (April 2006).

[a] Including portfolio debt and equity investment.

[b] Including short- and long-term bank lending, and possibly including some official flows to data limitations.

Table 3

**Foreign exchange reserves to short-term external debt ratio of developing economies and economies in transition, 1995-2005**

(Billions of United States dollars)

| | *1995* | *1996* | *1997* | *1998* | *1999* | *2000* | *2001* | *2002* | *2003* | *2004* | *2005* |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Developing economies | 1.7 | 1.9 | 2.0 | 2.1 | 2.3 | 2.7 | 2.9 | 3.6 | 4.0 | 4.4 | 4.7 |
| Africa | 2.1 | 2.0 | 2.3 | 1.8 | 1.7 | 4.6 | 5.9 | 5.2 | 6.2 | 7.6 | 11.9 |
| Sub-Saharan (excluding Nigeria and South Africa) | 8.3 | 10.8 | 8.5 | 4.6 | 4.8 | 5.0 | 5.0 | 5.1 | 5.2 | 6.0 | 6.9 |
| Eastern and Southern Asia[a] | 1.7 | 2.1 | 2.5 | 3.0 | 4.3 | 5.5 | 4.5 | 6.0 | 6.0 | 6.4 | 6.0 |
| Western Asia[b] | 2.5 | 2.8 | 2.7 | 1.6 | 1.6 | 1.7 | 1.9 | 2.0 | 2.1 | 2.0 | 2.5 |
| Latin America | 1.3 | 1.4 | 1.4 | 1.6 | 1.5 | 1.5 | 1.7 | 2.1 | 2.6 | 2.8 | 3.0 |
| Economies in transition | 2.5 | 2.9 | 1.7 | 0.9 | 1.5 | 2.7 | 2.6 | 3.4 | 3.3 | 4.4 | 5.7 |
| Memorandum item: Heavily indebted poor countries | 4.2 | 6.9 | 6.8 | 3.0 | 3.3 | 3.3 | 3.8 | 4.5 | 5.8 | 6.6 | 7.4 |
| Least developed countries | 8.3 | 8.1 | 14.8 | 4.6 | 4.7 | 5.5 | 5.2 | 5.9 | 7.0 | 8.5 | 10.0 |

*Source*: United Nations Department of Economic and Social Affairs, based on International Monetary Fund (IMF), *World Economic Outlook* (April 2006).

[a] Excluding newly industrialized Asian economies.

[b] Excluding Israel.