INTERNATIONAL MONETARY FUND

Report of the Managing Director to the International Monetary and Financial Committee: The Fund's Crisis Prevention Initiatives

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I. INTRODUCTION

1. **The discussion of the reform of the international financial system took center stage in 1998 in the aftermath of the crises in the Asian countries.** The package of reforms grouped under the rubric of "international financial architecture" were designed to respond to the lessons of the crises with the aim of reducing the frequency and magnitude of future crises. Specifically, these reforms seek to promote transparency in economic policymaking, and timely and accurate information regarding economic data, provided within a framework of internationally-accepted standards; strengthen domestic financial systems, including particularly prudential supervision; encourage the adoption of consistent monetary and exchange rate regimes that are less prone to crisis; and improve vulnerability analysis and policy design. Developments in the global economy and international financial markets since that time, and most recently the past several months, underscore the importance of concentrating even more on system reform and crisis prevention.

2. This report provides an update on progress made by the Fund and other international institutions, national authorities, and other bodies and fora in implementing this reform agenda since the last report to the International Monetary and Financial Committee (IMFC) in April 2001.[1] In this regard, the Fund's initiatives aim at strengthened surveillance and crisis prevention through improved assessment of external vulnerabilities; greater transparency of members' policies and the activities and assessments of the Fund; the adoption of international standards and codes of good practice; and in-depth financial sector surveillance. Bilateral and multilateral surveillance are the main vehicles for pursuing this agenda. The main findings from Financial Sector Assessment Program (FSAP) reports and standards and external vulnerability assessments are reflected in the Fund's regular discussions of economic policy and developments at the national and international levels. In addition, the changes in Fund facilities including a modification to the Contingent Credit Lines (CCL) should enhance the effectiveness of the Fund's support of members efforts to prevent and resolve crises. This approach was endorsed by the IMFC in April 2001.[2]

3. **The last six months have been a period of implementation with the number of countries participating in the transparency, standards and codes, and Financial Stability Assessment Program (FSAP) initiatives increasing rapidly** (Table 1). In

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[1] *Report of the Managing Director to the International Monetary and Financial Committee on the IMF in the Process of Change* (IMFC/Doc/3/01/8, 4/25/01).

[2] See *Communiqué of the International Monetary and Financial Committee of the Board of Governors of the International Monetary Fund,* April 29, 2001.

addition, the Fund's strengthened internal process and approaches for assessing external vulnerabilities were endorsed by the Executive Board in October 2001. Further, the Board, in response to requests from the IMFC, discussed strengthening of the Fund's data dissemination standards; indicators of financial soundness; and general principles for financial sector stability and sequencing of capital account liberalization.

4. **The reform of the international financial system, has involved changes in the ways international financial institutions do business**. In this regard, there has been growing emphasis on national decision-making processes; the administrative capacity to implement reforms; the need for strong country ownership of the reform agenda; and collaboration and an appropriate division of labor and responsibilities between the Fund and the World Bank. Strong cooperation between the Fund and the Bank is a crucial element for the effective implementation of reforms. In key areas, such as financial sector and standards assessments; poverty reduction and growth; and conditionality, Bank-Fund collaboration has been working well. In addition, refocusing Fund conditionality on policy reforms that are critical to achieve the macroeconomic objectives of Fund-supported programs, while ensuring that conditionality is applied more sparingly to structural measures, especially where these are not clearly within the Fund's core areas, will involve a clearer division of responsibilities with the World Bank.[3] Division of labor and cooperation with the World Bank and other organizations is also necessary for the effective delivery of technical assistance to support the reform agenda at the national and international levels.

5. **A key aspect of the increasingly integrated international financial system has been the recognition of the need for greater coordination within the international community on the reform agenda.** Such collaboration has helped to advance reform efforts. Contributions from the Financial Stability Forum (FSF), G-20, regional groups, and other fora have been particularly important (Appendix I).

6. **Intensified collaboration with the private sector is a marked feature of the post-Asian crisis international financial system.** The Fund's exchange of information with the private sector is enhancing understanding of market behavior and capital flows. The International Capital Markets Department (ICM) has been established to further strengthen this exchange. During the last six months, the Fund has convened the Capital Market Consultative Group and participated in the Institute of International Finance's (IIF) initiative to foster public-private cooperation to make crisis prevention measures operational.

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[3] *Streamlining Conditionality and Enhancing Ownership The Managing Director's Report to the International Monetary and Financial Committee* (IMFC/Doc/4/01/4, 11/6/01).

7. **There is evidence that the reforms are influencing members and markets.** Greater transparency of the Fund and member countries represents a sea change, and appears to be leading to more differentiation in investment decisions. The view among Fund members on standards has shifted dramatically and a growing number of participants in the major financial centers are increasingly relying on standards assessments to inform credit and investment decisions. The FSAP is gaining ground as an important tool for identifying financial sector weaknesses.

8. **Notwithstanding progress made on policy development and implementation, these initiatives will take time to come to full fruition and to demonstrate a measurable impact in preventing crises**. In particular, reforms designed to build or change institutions and influence markets are costly, and require consistency and tenacity in implementation to deliver results. As noted, many countries will require technical assistance to support this work.

9. **Despite continued progress in implementing the new initiatives, it would be unrealistic to expect that a strengthened international system and Fund will prevent all crises from occurring.** Gaps in information and analytical capacity remain; and appropriate policy action is not always taken even when weaknesses are identified**.** Nevertheless, the Fund and its members should now be better positioned to respond to those crises that may still occur. Governments, the private sector and, more broadly, civil society have all contributed to the changes to the system and have a responsibility to maintain the momentum for reform. The Fund will also continue to improve its crisis prevention efforts; to position itself to be more effective whenever crises do strike; and to develop mechanisms to resolve crises when they do occur, including with private sector involvement.

10. This report is structured as follows. Section II reviews progress made since the last report to the IMFC in implementing the Fund's crisis prevention initiatives, including the assessment of external vulnerability; promoting transparency; standards and codes; and financial sector strengthening. Section III examines the response of Fund members and the private sector to these initiatives.

II. Implementation of the Fund's Crisis Prevention Initiatives

A. Assessing External Vulnerability

11. **The external crises of the late 1990s were in many ways different from earlier crises and prompted a re-evaluation of traditional methods of vulnerability assessment.** This re-evaluation has reflected the increased role for private capital financing in emerging markets, the interconnectedness of markets across the globe, and the links between external financing difficulties and distress in the financial and corporate sectors—links that can be

evidenced in pressures on a country's exchange rate. With crisis prevention and the promotion of domestic and international financial stability among its top priorities, the Fund has strengthened its analysis of the vulnerability of member countries to changes in external circumstances and, in particular, to capital market conditions.

12. **On October 22, 2001, the Executive Board took stock of the progress in monitoring members' external vulnerability on a more continuous basis**, particularly for emerging market economies which are often highly sensitive to conditions in international capital markets. Directors welcomed the increased efforts to combine qualitative analysis reflecting individual country circumstances with vulnerability indicators and other quantitative tools, and the improved integration of bilateral and multilateral surveillance activities as crises can emanate from either advanced or emerging market economies. They noted that, the use of information on markets and market developments in vulnerability assessments is being further strengthened by the work of the ICM Department.

13. **Directors observed that the Fund is drawing systematically on a number of independent inputs:**

- **The latest revisions to the World Economic Outlook**. These are the starting point for any assessment of vulnerabilities, as a key objective is to capture influences from the global economy—most importantly financial market conditions and developments in industrial countries—on emerging market countries, including through the explicit consideration of adverse scenarios;

- **Early Warning System models.** These models provide a systematic framework for estimating the likelihood of a balance of payments crisis based on a combination of vulnerability indicators. While work is ongoing to improve their performance, these models still miss many crises and predict others that do not occur, and are likely to remain imperfect, somewhat mechanical, signaling tools; as such they need to be qualified by detailed country analysis and used cautiously, in conjunction with other methods of vulnerability assessment;

- **Financing requirements.** Where there is a risk that a country's access to global financial markets may become difficult or be interrupted, detailed estimates of its external financing needs and prospective sources and uses of funds are important. The potential for liquidity problems is also reflected in the work on reserve adequacy, which takes into account a country's capital needs through indicators such as the ratio of reserves to short term external debt, and stress-testing of the balance of payments;

- **Market information and contagion risks.** Besides the direct information content of foreign exchange spreads on borrowing costs for individual countries, the analysis of spreads serves to focus attention on changes in market perceptions and as such sharpens the discussion of contagion. The new ICM Department will be responsible for systematically drawing on market information as well as refining tools to understand markets and market behavior;

- **Financial sector vulnerability assessments.** The Fund's specialized knowledge about the financial sectors of its members is a key input into the Fund's assessment of vulnerabilities. FSAPs help to assess the robustness of the financial sector and the implications of worst case scenarios, as relevant financial sector variables have been subjected to stress tests. For countries that have not yet had FSAPs, the staff remains very actively involved in financial sector monitoring and advice;

- **Area department expertise**. One of the greatest strengths of the Fund is the wealth of information in the hands of its area departments on the countries they monitor continuously. This knowledge is used to provide a broader perspective and judgment on the tools used for vulnerability assessments, including through an appreciation of the feasibility of alternate policy choices and the likely responses of market participants.

14. **The increased focus on vulnerability and appropriate policy responses has further highlighted the importance of addressing gaps and deficiencies in the data required for these purposes.** The Special Data Dissemination Standard (SDDS) already provides an agreed framework for the availability of data on reserves and external debt. Other data needed for vulnerability assessments include those on foreign exchange exposures of the financial sector and the non-financial corporate sectors, and countries' financing needs—including their degree of reliance on rollovers, trade finance, and bond finance. Directors encouraged staff to focus more intensively on these informational needs in order to ensure that data availability improves over time, and stressed that many countries will require technical assistance to achieve this.

15. **Directors noted that an underlying objective of the strengthened vulnerability assessments is to allow for timely policy adjustments to forestall external crises**. They agreed that the Fund has an important role to play in involving national authorities in the discussion on vulnerabilities and in convincing them of the urgency of such measures, while information on possible future crises had to be kept strictly confidential. They underscored the role of the Executive Board—through, for example, peer pressure and charging management explicitly to take action to express heightened concern on the part of the Fund. In this regard, Directors noted that it is all the more essential that the results of the staff work on vulnerability is communicated to Executive Directors in a timely fashion.

16. **Work to reduce external vulnerabilities of member countries has also continued to involve the development of policy guidelines**. Guidelines for Public Debt Management, developed by the Fund and the World Bank, were published in March 2001. Guidelines for Foreign Exchange Reserve Management were also developed in close collaboration with reserve management entities from a broad group of member countries and international institutions, and published in September 2001. In October 2001, the Executive Board

considered issues related to reserve adequacy and management, including the implications of the capital account approach to assessing reserve adequacy for reserve management. A next step will be to consider reserve adequacy in the context of a broader approach to external liquidity management, which includes external debt management.

17. **The agenda for further work on vulnerability assessment is broad and evolving**, and Directors discussed a number of potential improvements to the various inputs into the Fund's vulnerability assessments. The priorities ahead include work on national balance sheet approaches to crisis prevention and resolution, and on financial sector indicators. In addition, efforts will continue to better understand market dynamics; to identify developments in individual countries that may have implications for other members; and to take careful account of the aggregated effects on the global economy of similar policies synchronized across a number of countries.

B. Transparency

18. Increased transparency, in both economic policy and in economic and financial data, can strengthen markets' ability to undertake appropriate credit risk assessments and so reduce the likelihood of crises and mitigate their severity when they do occur. The Fund, therefore, has promoted the transparency of its members' policies; undertaken a wide-reaching program to improve public understanding of its own policies and operations; and encouraged feedback from national authorities and the public on the transparency and other key policy initiatives.

19. **There has been a sea change in the last few years in the Fund's publication policy and the availability of information about the Fund and members' policies.** Prior to 1994, only research-oriented working papers and some background papers to Article IV staff reports were published by the Fund. The only publicly available information on an Article IV consultation was a very brief summary in the Fund's Annual Report.[4] Details of Fund programs were considered highly confidential. Now the Fund publishes a wealth of information about its policy advice, lending arrangements, and policies and assessments on key topics.

20. **An important step in bringing greater transparency to the Fund's bilateral surveillance was the launching of Public Information Notices (PINs) in mid 1997.** PINs summarizing the Executive Board's Article IV consultation of the economic situation of members' economies have now been published for 86 percent of the Fund membership, up

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[4] These summaries were dated for those countries' whose Article IV consultations took place at the beginning of the

from 56 percent at end-1998. Most notably, full Article IV staff reports are now published when the country concerned agrees. Between June 1999, when the Board took the decision to authorize the release of Article IV staff reports, and September 30, 2001, 85 members have published 131 reports.[5] However, participation has been uneven with publication rates highest for advanced, Western Hemisphere, and Central and Eastern European members.

21. **The change with respect to Fund-supported programs has been as dramatic.** Chairman's statements, news briefs, and press releases following Executive Board discussion of the use of Fund resources are now released on a routine basis. There is now a presumption that the documents setting out the authorities' intentions under their Fund-supported programs will be released to the public, and 96 percent of all such documents[6] have been published. In January 2001, the Board agreed to the release of stand alone staff reports on Fund-supported programs. The first of these reports were published by the Federal Republic of Yugoslavia and Bosnia and Herzegovina on January 8, 2001 and through end-September, 50 percent of stand alone reports on Fund-supported programs had been published with publication rates highest among the countries of Central and Eastern Europe.[7]

22. **The increased transparency of members' policies has been matched by greater transparency of the Fund's own policies and assessments.** Staff papers discussing key policy issues and summaries of Executive Board discussions of these papers are now published (Table 2). In addition, the Fund has engaged in a dialogue with the public on some key policy issues. For example, public comment has been sought on the Fund's review of conditionality through the Internet and through seminars with wide participation from academics, policy-makers, and non-governmental organizations. A number of external (as well as internal) evaluations of Fund activities and programs have been conducted in recent years, and the results of almost all of those studies have been published. Finally, an Independent Evaluation Office (IEO), which is designed to complement the Fund's existing review and evaluation procedures, is now in operation.

23. Though the Fund has gone a long way in articulating a general transparency policy, there remain issues to be addressed. These include the publication of documents in languages other than the Fund's working language, English; review of the policy on modifications to country papers; and, importantly, a review of the experience with transparency on Fund

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[5] These figures include the publication of combined Article IV and Use of Fund Resources reports.

[6] Letters of Intent and Memoranda of Economic and Financial Policies.

[7] The publication rate for staff reports on Fund-supported programs is about the same as for Article IV reports.

operations and on members' policies, including the impact on the candor of the policy discussions.

C. Standards and Codes

24. The development, dissemination, and adoption of internationally accepted standards and codes of good practice is contributing to the better working of markets by allowing participants and policy makers to compare information on country practices against agreed benchmarks of good practice. The adoption of standards is designed to improve transparency and good governance, and increase the accountability and credibility of policy.

25. The Fund's standards and codes initiative, launched in response to the Asian crisis, is:

- encouraging the development and improvement of internationally recognized standards in 11 key areas (Box 1);
- leading to assessments of countries' observance of standards and helping countries implement standards, including through the provision of technical assistance; and
- seeking and responding to feedback from authorities and the private sector on this initiative.

In the last few months, progress has been made on all these fronts while in coming months the Fund will undertake analysis of how a country's observance of standards influences its development and resilience to shocks.

Developing and improving standards

26. An important enhancement to the Fund's data standards was approved by the Executive Board in July with the endorsement of the Data Quality Assessment Framework and its integration into the data module of the Report on the Observance of Standards and Codes (ROSC). This framework seeks to address the concern that standards assessments (and ROSCs) should examine not only the frequency, timeliness, and coverage of data releases but also the quality of the data being released. The methodological framework for assessing data quality was developed by the Fund in consultation with national statistical offices, international organizations, and data users outside the Fund. It brings together best practices and internationally accepted concepts and definitions in statistics and covers multifarious dimensions of data quality, such as integrity, methodological soundness, accuracy and reliability, serviceability, and accessibility, as well as the related institutional prerequisites. The Executive Board also discussed the possible inclusion of financial soundness indicators (FSIs) in the SDDS: while a number of Directors believed this would be a useful

Box 1. List of Standards and Codes Useful for Bank and Fund Operational Work and for which Reports on the Observance of Standards and Codes (ROSCs) are Produced [1/]

Group 1: *areas where the Fund has developed standards.*

Data: the Fund's *Special Data Dissemination Standard/General Data Dissemination System* (SDDS/GDDS).

Fiscal Transparency: the Fund's *Code of Good Practices on Fiscal Transparency.*

Monetary and Financial Policy Transparency: the Fund's *Code of Good Practices on Transparency in Monetary and Financial Policies* (usually assessed under the Financial Sector Assessment Program, FSAP).

Group 2*:standards in these areas have been developed by other institutions and are assessed under the joint Fund-Bank FSAP.*

Banking Supervision: the Basel Committee's *Core Principles for Effective Banking Supervision* (BCP).

Securities: the International Organization of Securities Commissions' (IOSCO) *Objectives and Principles for Securities Regulation.*

Insurance: the International Association of Insurance Supervisors' (IAIS) *Insurance Supervisory Principles.*

Payments Systems: the Committee on Payments and Settlements Systems' (CPSS) *Core Principles for Systemically Important Payments Systems.*

Group 3: *areas in which the World Bank is in the lead and is undertaking assessments. Some of these areas may be assessed under the FSAP.*

Corporate Governance: the OECD's *Principles of Corporate Governance.*

Accounting: the International Accounting Standards Committee's *International Accounting Standards.*

Auditing: the International Federation of Accountants' *International Standards on Auditing.*

Insolvency and Creditor Rights: the World Bank's *Draft Principles and Guidelines for Insolvency and Creditor Rights Regimes*.

1/ The Fund is consulting with the Financial Action Task Force (FATF) regarding the preparation of a ROSC module on anti-money laundering.

development, others considered that FSIs should not be included even at a later stage; it was decided to return to the issue at a future date.[8]

27. **Fund staff have collaborated with a number of other bodies to revise and develop standards.** Staff are working with the Basel Committee on the New Basel Capital Accord which is a crucial complement to the Basel Core Principles, the internationally recognized standard for banking supervision. Staff have also worked with the World Bank on the development of draft principles and guidelines for insolvency and creditor rights regimes and with the Bank and the International Accounting Standards Board on developing more detailed standards and standards assessment methodologies for accounting and auditing. The Fund in collaboration with other agencies is assisting countries to compile data on external debt consistent with the SDDS and the General Data Dissemination System (GDDS) requirements.[9] In this regard, the Fund has posted the second draft of the Debt Guide on its external website seeking another round of comments before finalizing it. Finally, the Fund is working closely with the Financial Action Task Force (FATF) and the World Bank to develop a methodology for enhancing the assessment of financial supervisory standards relevant for countering money-laundering (see section D).

Assessing members' observance of standards

28. **The number of assessments summarized in ROSC modules has increased by 50 percent since the last report to the IMFC.**[10] As of September 30, 169 ROSC modules for 57 economies had been completed and 109 for 36 economies had been published.[11] Assessments are being carried out by the World Bank on countries' observance of standards in the areas of corporate governance, insolvency, accounting, and auditing. Participation in

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[8] The SDDS was established in 1996 to guide countries that have, or might seek, access to international capital markets, in the dissemination of economic and financial data to the public. See *IMF Executive Board Reviews Data Standard* (PIN/01/101); and *Concluding Remarks by the Acting Chairman of the IMF Executive Board, Macroprudential Indicators* (6/25/01).

[9] The Inter-Agency Task Force on Finance Statistics, formed under the aegis of the United Nations Statistical Commission and chaired by the Fund, is the coordinating body for this work.

[10] From end-March to end-September 2001. See *Report of the Managing Director to the International Monetary and Financial Committee on the IMF in the Process of Change* (IMFC/Doc/3/01/10, 4/29/01)

[11] ROSCs derived from FSSAs are considered complete following Board discussion of the FSSA. All other ROSCs are considered complete once they have received management approval.

ROSC modules—which is voluntary—has been led by member countries in Central and Eastern Europe, the advanced economies, and in Africa (see Table 1).

Implementing standards

29. **The implementation of standards is the responsibility of members, although the Fund and other international bodies can help with implementation by providing technical assistance.** As discussed in Section III, there is evidence that many members have increased the transparency of their policies and taken actions to strengthen their institutions often taking international standards as a benchmark in this process. The Fund has played a key role by highlighting areas where reforms are needed (through ROSCs) and by providing technical assistance including to help countries implement the recommendations in ROSCs. As many of the areas where reforms are needed require specialist skills and knowledge, there is an issue of finding, and using to best effect, the limited number of experts who can provide this assistance. The Fund is discussing with the World Bank, standard setting bodies, and member countries, strategies for coordinating assistance to help ensure optimal use of the available experts and for financing this assistance.

Feedback from users on ROSCs

30. The Fund in cooperation with other institutions, including the World Bank and the Financial Stability Forum, has undertaken a series of outreach missions designed to inform and solicit feedback from members and markets of the work on standards. In the last 5 months, Fund staff have participated in seminars in Australia, Bahrain, Hong Kong SAR of China, the Philippines, and the United States.[12]

31. **This outreach has elicited feedback which is helping to make ROSCs more accessible to users.** A common theme of feedback is that the usefulness of ROSCs could be enhanced by keeping them short, with a standardized format, and with more comprehensive country coverage. Feedback from the public and private sector has also pointed to the varying quality of ROSCs; the need for timely publication of ROSCs; and the need to assure the timely update of the information in ROSCs and also updates to standards assessments. National authorities have also expressed concern that adequate technical assistance is made available to help them address weaknesses identified in standards assessments. Steps are being taken to respond to these concerns and to assess the associated resource implications.

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[12] In addition, there have been previous outreach seminars in Argentina, Belgium, Brazil, Chile, Czech Republic, Egypt, Japan, Singapore, South Africa, Thailand, and the United Kingdom.

D. Strengthening Financial Sectors

32. **The Asian crisis and the banking sector problems faced by a large number of Fund members have highlighted the critical importance of concerted action to strengthen financial systems**. The Fund has intensified its financial sector surveillance activities, improved its capacity to provide technical assistance on financial issues and launched, in collaboration with the World Bank, the FSAP which provides comprehensive analysis of member countries' financial sectors. The intensified focus on financial issues is not only at the national level but also encompasses the international capital markets including the major international financial centers.[13] In the last six months, the Fund has examined the use of summary financial soundness indicators for the assessment of financial sector vulnerability and given greater focus to assessments of offshore financial centers and anti-money laundering issues.

Financial sector assessment program

33. In December 2000, the Fund and World Bank Executive Boards agreed that the FSAP would continue at an intensity of up to 24 country assessments per year. The FSAP aims at strengthening the monitoring of financial systems in the context of the Fund's bilateral surveillance and the Bank's financial sector development work. At the Fund, Financial System Stability Assessments (FSSAs) reports, that are derived from the discussion of FSAP findings, were endorsed as the preferred instrument for strengthened monitoring of financial systems as part of Fund surveillance. By September 30, 2001, 22 FSAPs had been completed and an additional 40 countries had committed to participate in the program (with 23 so far scheduled for financial year 2002).[14] Four FSSAs were published for the first time in June-September of this year giving markets an integrated assessment of the strengths and vulnerabilities of these financial sectors. The program of assessments in financial year 2002 will place greater emphasis on systemically important countries in line with the views of the Executive Board, with a higher proportion of advanced and emerging market countries participating in the program than under the pilot.[15]

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[13] The latter is a key aspect of the Fund's multilateral surveillance activities and the work of the new ICM Department.

[14] An FSAP is considered complete once the FSSA has been discussed by the Executive Board and the FSAP report has been sent to the authorities.

[15] Of the 18 countries for which FSAPs are underway, 7 are advanced and emerging market economies and 11 are transition or developing economies (of which 6 access international private capital markets). This compares to 3

(continued…)

Financial soundness indicators

34. **As a complement to the work on assessing external vulnerability and the FSAP, the Fund has developed a set of FSIs and methods of macroprudential analysis designed to improve the assessment and monitoring of vulnerabilities in financial systems.**[16] In June 2001, the Executive Board endorsed a core and an encouraged set of FSIs. The core set of indicators are focused on the banking sector and were selected because of their analytical relevance, usefulness, and availability. The set which is encouraged, includes additional indicators of the banking sector as well as indicators for the nonbank financial sector, the corporate and household sectors, and real estate markets. Directors agreed that a more general compilation and greater use of FSIs, with a focus on the core set, would pave the way for a significant strengthening of surveillance. They supported more systematic compilation of data on FSIs in the FSAP and in Article IV reports with in-depth financial sector assessments.

35. The work ahead on FSI-related issues include activities in four areas: support of compilation efforts by national authorities; analytical and empirical work on measuring and analyzing FSIs; strengthened monitoring of FSIs, in cooperation with country authorities, as a key component of the FSAP/FSSA process; and encouraging national authorities to disseminate the indicators to the public on a regular basis.

Offshore financial center assessments

36. **The Fund has extended its financial sector work to include offshore financial centers (OFCs).**[17] The program involves voluntary assessments of OFCs at three possible levels of intensity.[18] As of end-September 2001, Fund staff have undertaken missions to 19 OFCs for the purpose of gathering information, providing technical assistance, and assisting self-assessments. One assessment of an offshore center has been published. Three

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advanced and emerging and 9 transition and developing countries (6 of which access the international private capital market) covered under the pilot.

[16] Macroprudential analysis includes stress testing of financial systems' sensitivity to a variety of shocks.

[17] See *IMF Board Reviews Issues Surrounding Work on Offshore Financial Centers*, IMF News Brief No. 00/62 (7/26/00); and *Offshore Financial Centers: Note for the Executive Board* (SM/01/205, 7/18/01).

[18] Module 1 is an assisted self-assessment with technical assistance from experts, as needed, to help OFCs assess their compliance with particular standards. Module 2 is a stand-alone fund-led assessment of standards, and Module 3 is a comprehensive assessment of risks and vulnerabilities, institutional preconditions, and standards observance prepared by the Fund, within the framework of the FSAP.

assessments have been completed and by the end of 2001, it is expected that the Fund will have completed about 9 OFC assessments.[19] The Coordinated Portfolio Investment Survey (CPIS) organized by the Fund will support this work by helping to compile more comprehensive data on investment instruments in financial markets.[20]

Anti-money laundering

37. **In April 2001, the Executive Boards of the Fund and the Bank considered how the two institutions might enhance their contributions to global efforts to fight money laundering.**[21] While emphasizing that the Fund's involvement in this area should be confined to its core areas of competence, and, in particular, that the Fund should not become involved in law enforcement issues, the Fund Board identified key ways in which the Fund could contribute to anti-money laundering efforts including:

- Intensifying its focus on anti-money laundering elements in all relevant supervisory principles;
- Working more closely with major international anti-money laundering groups;
- Increasing the provision of technical assistance;
- Including anti-money laundering concerns in its surveillance and other operational activities when macroeconomic relevant; and
- Undertaking additional studies and publicizing the importance of countries acting to protect themselves against money laundering.

38. **The Fund and Bank staffs have produced a draft methodology that is designed to enhance the assessment of financial standards relevant for countering money laundering, and Fund assessments using this methodology on a pilot basis in some FSAP cases have begun.** The document is being discussed with relevant standard-setting bodies. The Fund's Board generally agreed that the 40 Recommendations of the FATF be

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[19] Module 2 or module 3 assessments.

[20] The CPIS database will complement the Bank for International Settlements (BIS) international statistical collections for banking statistics.

[21] Summing Up by the Acting Chairman, *Enhancing Contributions to Combating Money Laundering* (PIN/01/41, 4/29/01).

recognized as the appropriate standard for combating money laundering and adapted to the Fund's operational work.[22] However, most Directors felt that the Fund should cover only those issues in the FATF Recommendations that deal with financial regulation and supervision and that responsibility for legal/crime enforcement should be left to others. A first progress report on enhancing the contribution of the Fund to combating money laundering was circulated to the Executive Board in August 2001. A Task Force on Anti-Money Laundering and the Financing of Terrorism was also established by the Fund in October and a report based on its work will be discussed by the IMFC.

E. Capital Account Liberalization

39. The Fund has strengthened its work on capital account issues, including by undertaking more analysis, giving more prominence to capital account issues in Article IV consultations, and expanding discussions with the private sector. The benefits of capital account opening include a more efficient international allocation of savings and improved productivity (for example, through technology transfer in foreign direct investment flows), enlarged opportunities for portfolio diversification, risk sharing, and intertemporal resource allocation, deeper financial markets, and a greater international division of labor. On the other hand, volatile international capital flows have played a role in a number of recent crises.

40. **Most recently, in July 2001, in response to a request from the IMFC, the Board held a preliminary discussion on financial sector stability and sequencing of capital account liberalization.** Bearing in mind that there is no simple rule applicable to all countries, Directors discussed some general principles which could be helpful to countries in sequencing and coordinating capital account liberalization. These principles emphasize the importance of macroeconomic stability; giving priority to financial sector reforms that support macroeconomic stability; coordinating different financial sector policies to ensure mutually reinforcing reforms; taking into account the initial condition of financial and non-financial entities and effectiveness of existing capital controls; implementing early, key measures that may have a long lead time; considering the sustainability of the reform process; and ensuring the transparency of the liberalization process. The principles point to the desirability, in most cases, of liberalizing long-term flows (in particular foreign direct investment) ahead of short-term flows with suggestions of specific policy measures which should be put in place before different types of flows are liberalized. In many cases a gradual approach to liberalization may be required, but would not in itself guarantee orderly liberalization.

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[22] During an extraordinary Plenary on October 29-30, 2001 the FATF agreed to a set of eight Special Recommendations on addressing terrorist financing.

41. Discussions on this topic will continue both within the Fund and with the private sector, including through the Capital Markets Consultative Group. A workshop to discuss advanced country experiences with capital account liberalization is scheduled for late 2001.

III. Response of Members and The Private Sector

42. **The initiatives described in the previous section are intended to help reduce the magnitude and frequency of crises by encouraging and assisting members in improving their policies and by facilitating more informed markets and, hence, better credit risk assessment and investment decisions.** This section concludes that information generated by these reform initiatives is being accessed by national authorities and market participants and is beginning to affect both policy making and market behavior.

A. Response by Members

43. There is evidence that members' policies are changing in response to the lessons of the emerging market crises of recent years. Members are releasing more data more frequently and on a more standardized basis; focusing on the question of reserve adequacy and management; taking steps to improve their observance of standards and codes and strengthen their financial sectors; and becoming more transparent about their policies (Section II. A). However, improvements have not been across the board and, even where reform strategies have been initiated, there remains some distance to go.

Reserve adequacy and management

44. **Many emerging market economies are focused on the topic of reserve adequacy.**[23] It is noteworthy that these countries have increased their levels of reserves sharply in the last few years: total reserves for this group in 2000 were nearly 30 percent higher than before the Asian crisis while the level of short-term debt has fallen by 40 percent. As a result, the indicator of reserves over short-term debt has risen very steeply (Figure 1).

Data availability

45. **Members are now releasing macroeconomic data more frequently and on a more timely and consistent basis than before the Asian crisis.** On the dissemination of data,

[23] In April 2001, the Bank and Fund hosted an international reserves policy forum which drew the participation of senior policy makers from more than 36 central banks from a wide range of countries. In addition, the Fund and Bank are involved on extensive outreach activities and providing assistance on reserve adequacy, management, and investment issues at the request of the authorities.

there are now 49 subscribers to the SDDS, and the number of subscribers in observance of the standard has increased from 13 in March 2000 to 46 in September 2001. In addition 49 subscribers now disseminate templates on international reserves and foreign currency liquidity compared to 7 in March 2000. For countries not yet at the stage of seeking access to international capital markets, but which receive other forms of foreign investment, there is now greater transparency of how data is compiled with 33 countries posting meta data through the GDDS up from zero in March 2000.[24]

Institutional reform and the strengthening of financial sectors

46. **While harder to capture numerically, many member countries appear to be responding to the lessons of the recent emerging market crisis by reforming their institutions and strengthening their financial market regulation.** In this process many have used internationally recognized standards and codes such as the Basel Core Principles as a benchmark for their reforms. As discussed above, compliance with the SDDS and membership of GDDS has risen sharply in the last year. The growing interest shown by countries in participating in standards assessments and the FSAP and their response to the recommendations (Sections II. C and D) are also signals of the importance countries are assigning to strengthening their financial systems. Areas of improvement have included reforming financial legislation (central bank law, banking law, financial supervision law) to bring it in line with international good practices, strengthening risk management in the insurance sector, modernizing payments systems, compiling and monitoring indicators of financial system vulnerability, and intervening and resolving distressed financial institutions. In addition, surveys undertaken by staff suggest that assessments of compliance with Basel Core Principles and the Insurance Core Principles have provided impetus and direction to national authorities' ongoing efforts to bring their regulatory framework into observance with internationally accepted practice.[25] Many countries have been using assessments of observance of the fiscal transparency code to help improve the transparency and accountability of their fiscal policy including those countries eligible for Highly Indebted Poor Country (HIPC) debt relief.

B. Response by Markets

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[24] Countries that participate in the IMF's GDDS commit to use the GDDS as a framework for the development of their national systems for the production and dissemination of economic, financial, and socio-demographic data.

[25] *Experience with the Insurance Core Principles Assessments Under the Financial Sector Assessment Program*, IMF (8/31/01). In the case of the Insurance Core Principles, 15 percent of countries for which assessments were carried out received technical assistance from the Fund to help complete some or all of this work.

47. **The private sector has welcomed the initiatives discussed in this report and has responded with a number of its own projects.** There is also some preliminary evidence that investors are becoming more discriminating in their investment decisions in part as a result of greater transparency, ROSCs, and FSAPs. Concerns have been expressed within the international community about the need for greater transparency of private sector operations—particularly with respect to Highly Leveraged Institutions (HLIs) but these issues are still under discussion.

Private sector participation in the reform agenda

48. **Various groups have sought to support and help disseminate the results of the Fund's initiatives.** The Capital Markets Consultative Group (CMCG) brings together senior private sector market participants and Fund management and senior staff in an informal forum to discuss financial sector issues of mutual interest. In May 2001, the Group welcomed the standards and codes initiative and published a report which included recommendations to help member countries establish Investor Relations Programs (IRPs) as a way to increase transparency and the flow of information to creditors.[26] The Institute of International Finance (IIF) also organized a meeting of senior financial sector representatives and Fund staff and management under the auspices of its working group on crisis prevention. The group gave strong support to the Fund's initiative on crisis prevention and urged it to move further, for example by increasing the frequency of reserves reporting under the SDDS and the number of FSSA reports which are published. The IIF has proposed a number of ways in which it can help promote the Fund's work in this area, including through the creation of market incentives to encourage countries to participate in the Fund's reform initiatives.

49. **Confirmation of the private sector's engagement is evident from a number of independent projects.**[27] A number of bond prospectuses now incorporate information on whether a country is a subscriber to the SDDS, in part prompted by the concerns of regulators in creditor countries and the wishes of debtor countries.[28] A private sector group has set up a subscription-based Internet database which collects, summarizes, and disseminates to market participants the results of assessments of countries' observance of

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[26] See *Investor Relations Programs: Report of the Capital Markets Consultative Group Working Group on Creditor-Debtor Relations,* IMF (7/20/01)

[27] See *Quarterly Report on the Assessments of Standards and Codes,* IMF (7/12/01)

[28] Bond prospectuses where this information has been given include Argentina, Germany, Indonesia, Malaysia, Mexico, and the Philippines.

standards and codes (including those produced by the Fund and the Bank).[29] PricewaterhouseCoopers has produced an "opacity index" which measures the opacity of countries on standards-related dimensions including corruption, legal systems, economic policies, accounting guidelines, and regulatory frameworks.[30] There are also signs of efforts by the private sector to improve the transparency and consistency of private companies' financial statements.[31]

Use of the results of Fund initiatives in risk assessment and investment decisions

50. **There is a growing demand by the private sector for the information that is now being generated and published by the Fund.** The Fund's external website receives over 3 million hits a month and the conclusions of Article IV consultations are widely reported in the national and international media. In addition, users of ROSCs have mushroomed since the early stages of this initiative with the financial sector ROSCs for Czech Republic, Bulgaria, Estonia, Canada, and Ireland receiving the greatest interest (Table 3).

51. **Use of ROSCs in risk assessments has increased, albeit from a low base,** with the majority of market participants responding to an FSF survey indicating that they use ROSCs in their risk assessments and 45 percent saying their use had increased over the previous year.[32] Evidence from the Fund's outreach missions suggests that the use of ROSCs tends to be concentrated in the larger financial centers. Discussions with a group of 40 senior managers from major investment banks and funds, commercial banks, and ratings agencies in New York (groups that have an important influence on the pricing of market risk) indicated that many are taking ROSCs and standards assessments into account in their risk assessments and investment decisions. In this regard, market participants welcomed the decision to publish FSSAs, though noted that few as yet had been published.

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[29] See the eStandards Forum, www.estandardsforum.com.

[30] See *Quarterly Report on the Assessments of Standards and Codes,* IMF (7/12/01)

[31] The Financial Accounting Standards Board has a project on Financial Performance Reporting by Business Enterprises, www.fasb.org.

[32] See the *Final Report of the Follow-Up Group on Incentives to Foster Implementation of Standards,* Financial Stability Forum, September 2001. Two different groups were surveyed: the first who had not been surveyed previously were asked whether they used ROSCs in their credit assessments while the second group that had been surveyed in 2000 were asked whether their use of ROSCs had increased over the year.

52. **Following the Asian crisis and near collapse of Long-Term Capital Management, there were calls for increased public disclosure for all types of financial institutions and in particular HLIs.**[33] However, supervisors in the largest financial markets decided against directly regulating hedge funds, not least because of the practical difficulties involved and the changing structure of the industry which has become increasingly competitive and therefore less of a systemic risk. Since 1998, there have been steps to improve the way regulated counterparties (such as banks and institutional investors) interact with hedge funds.[34] This was seen as key for limiting the systemic risk posed by hedge funds. As a result, hedge funds have been asked to reveal more information to their primary creditors. In addition, a group of hedge funds (including some of the largest) established a voluntary code of conduct.[35] However, there is little evidence that there has been increased disclosure on the part of hedge funds to investors in general.

53. **There is some evidence of increased differentiation in investors' attitudes to emerging market economies during the recent period when some emerging markets have come under pressure (Appendix II)**. The dispersion of spreads on emerging market debt is much wider than in 1997 and the cross-correlation of returns has been lower, even when specific countries have come under pressure, than during other periods of market stress (Figure 2). The level of cross correlation has, however, risen sharply in September 2001 while private capital flows to emerging market economies fell significantly in the third quarter of 2001 (Figure 3).

54. **While developments appear to show somewhat less evidence of contagion than during previous episodes, this could reflect other factors as well—**including lower levels of capital flows to emerging markets, changes in investor composition, the nature of the shocks, and the nature of the countries experiencing the shocks (see Appendix II). A better understanding of markets, market behavior, and contagion continue to be a priority in the

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[33] See for example *Report of the Working Group on Highly Leveraged Institutions*, Financial Stability Forum, April 2000.

[34] *Banks' Interactions with Highly Leveraged Institutions,* Basel Committee Publication No. 45, January 1999 and the accompanying *Sound Practices for Banks' Interactions with Highly Leveraged Institutions,* Basel Committee Publication No. 46, January 1999. See also the follow-up report on the *Banks' Interactions with Highly Leveraged Institutions: Implementation of the Basel Committee's Sound Practices Paper,* Basel Committee Publications No. 68, January 2000.

[35] *Sound Practices for Hedge Fund Managers*, Caxton Corporation, Kingdon Capital Management LLC, Moore Capital Management LLC, Tudor Investment Corporation, Sullivan and Cromwell, and Rutter Associates, February 2000.

Fund's crisis prevention agenda as a part of the broader objective of strengthening the international financial system. This work will include continued outreach to the private sector as a vehicle for an exchange of views on the reform initiatives.

Progress in Major International Fora on Reform of the International Financial Architecture

Much work is taking place in various international fora to rise to the challenge of the new global environment and contribute to the efforts to reform the international financial architecture. These efforts involve in particular the Financial Stability Forum. The G-20 and other groups, such as the Group of Ten and the various Basel-based committees, are also contributing to initiatives to reform the international financial architecture.

Financial Stability Forum (FSF)

Since its establishment in 1999, the FSF[36] has worked in a number of key areas in collaboration with national authorities, the Fund and the World Bank, standards setters, and other fora on the initiatives that support financial stability and the reduction of systemic risk. FSF working groups have in particular focused on issues related to international capital flows, highly leveraged institutions (HLIs), offshore financial centers (OFCs), deposit insurance, standards and codes and, more recently, e-finance.[37] Implementation of the FSF's recommendations on financial sector issues is monitored regularly, through the work of follow-up groups and review at FSF meetings. This allows for periodic stocktaking on the progress and an assessment of priority tasks. In addition, the FSF secretariat regularly prepares notes on vulnerabilities and on ongoing work relevant to sound financial systems based on input from members of the group.

A report on progress in implementing the recommendations of the Working Group on Highly Leveraged Institutions (HLIs) was released at the fifth meeting of the FSF in March 2001. The report notes good progress in strengthening counterpart risk management and regulatory oversight. However, it suggested that credit providers need to make further progress in the measurement of risks inherent in credit exposures, including by conducting comprehensive stress tests. The report finds that supervisors remain concerned about the ability of regulated firms to resist market pressures. Although disclosure of information by

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[36] The Forum was conceived in April 1999 to promote international financial stability through information exchange and cooperation in financial supervision and surveillance. It brings together, on a regular basis, national authorities from 11 economies (Australia, Canada, France, Germany, Hong Kong SAR of China, Italy, Japan, Netherlands, Singapore, the United Kingdom, and the United States), international financial institutions, sector-specific international groupings of regulators and supervisors, and committees of central bank experts.

[37] Information on the FSF's published reports and related information may be found at http://www.fsforum.org.

HLIs to credit providers has improved in terms of both quality and quantity, progress remains inconsistent. The Good Practice Guidelines for Foreign Exchange Trading agreed among leading foreign exchange market participants were welcomed as an encouraging step toward more smoothly functioning foreign exchange markets.[38] The FSF will review these issues in March 2002. [39]

With regard to OFCs, the FSF, at its September 2001 meeting noted that while there are signs of progress, more is required. It reiterated the importance of OFCs disclosing the results of Fund assessments and encouraged further efforts by OFCs to improve their supervisory and cooperation practices, including participation in the Fund's assessment program. It encouraged the Fund to complete its OFC assessment program as soon as possible. The FSF called on its members to strengthen the provision of assistance to OFCs and called on its members to strengthen the provision of assistance to OFCs and welcomed the proposal of the Basel Committee to set up a contact group with offshore supervisors. The FSF will review these issues in March 2002.

The FSF has also continued its work to develop international guidance on deposit insurance arrangements and considered the final report of the corresponding Working Group in September 2001. The report drew on extensive consultation with a draft posted on the Internet in mid-July 2001. FSF members considered that it would be particularly useful when moving from a situation where there may be an implicit or blanket guarantee to a system of explicit limited coverage.

The Follow-Up Group, created to raise awareness on standards, foster their implementation and explore in greater depth issues related to market and official incentives, met in July 2001, and considered further the feasibility of certain supervisory and regulatory-type incentives, as well as efforts to enhance the provision of technical assistance to help countries implement standards. The final report of the Follow-Up Group on Incentives to Foster Implementation of Standards was discussed at the September 2001 meeting of the FSF.

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[38] The guidelines have been endorsed by the bodies responsible for foreign exchange market standards in the main financial centers and will be incorporated into existing codes of market conduct.

[39] *"Financial Stability Forum holds its sixth meeting" Press Release, September 7, 2001, London.*

As part of its outreach activities, the FSF held its first regional meeting in Mexico City, in April 2001. These regional meetings bring together senior officials from FSF member and non-member countries in the region to exchange views on vulnerabilities in domestic and international financial systems, brief non-members on Forum discussions, and give them an opportunity to provide views and perspectives on the FSF's work. The most recent in this series of regional roundtables was held in Tokyo in October 2001, for Asian/Pacific members and non-members.

The Group of 20 (G-20)

Members of the G-20, a gathering of finance ministers and central bank governors from systemically important countries established in 1999 to advance the reform of the architecture of the global financial system, have engaged in wide-ranging discussions of the opportunities and challenges that globalization creates for their economies.[40] They have promoted international initiatives such as standards and codes, and have committed themselves to implementing these initiatives.[41] In the fall of 2001, the G-20 will organize roundtables on private sector involvement in crisis prevention and resolution, and on market awareness of standards and codes. The G-20 has also called for the establishment of a clearing house mechanism for technical assistance.

Other Bodies

The Basel Committee on Banking Supervision has recently focused its work on the international coordination of the activities of supervisory authorities and on revising the 1988 Basel Capital Accord. A report on Essential Elements of a Statement of Cooperation between Banking Supervisors prepared by the Working Group on Cross-border Banking was released in May 2001. The report provides a framework for agreements between supervisors, to share information on a basis of mutual trust when the circumstances justify it. The Basel Committee on Banking Supervision has received more than 250 comments on its January

[40] The members of the G-20 are Argentina, Australia, Brazil, Canada, China, France, Germany, India, Indonesia, Italy, Japan, Korea, Mexico, the Russian Federation, Saudi Arabia, South Africa, Turkey, the United Kingdom, the United States, the European Union, the Fund, and the World Bank. The mandate of the G-20 is to promote discussion, and to study and review policy issues among industrialized countries and emerging markets with a view to promoting international stability. Information about and publications of the G-20 are available at http://www.g20.org/indexe.html.

[41] At end-September 2001, of the 19 countries that are members of the G20, 16 are subscribers to the SDDS, 18 have published PINs, 10 have published at least one Article IV or combined Article IV and Use of Fund Resources staff report, 10 have completed or committed to undertake FSAPs, and 13 have completed ROSCs.

2001 proposals to revise fundamentally the 1988 Capital Accord. It is currently reviewing these comments and the Committee has indicated that the proposals are likely to be further adjusted to reflect these comments.

Groups such as the Group of 10, the International Association of Insurance Supervisors (IAIS), the International Accounting Standards Committee (IAS), the International Organization of Securities Commissions (IOSCO), the Committee on Payment and Settlement Systems (CPSS), the Organization of Economic Cooperation and Development (OECD), the United Nations Commission of International Trade Law (UNCITRAL),the International Federation of Accountants (IFAC), and the Basel-based committees have also contributed to the reform of the international financial system, including through joint initiatives which reflect strengthened cooperation among international institutions.
For instance, a joint task force on the Winding Down of Large and Complex Financial Institutions (LCFI) was created in 2000 at the initiative of the FSF, G-10, and Basel Committee on Banking Supervision. Another example is the Multidisciplinary Working Group on Enhanced Disclosure, involving the Committee on the Global Financial System (CGFS) together with the Basel Committee, IAIS, and IOSCO.

Some Initial Evidence of Greater Differentiation in Markets[42]

In 1997, the spread between the interest rates paid on emerging market debt compared to that paid on U.S. Treasury bonds was similar for a wide range of countries. Fifty percent of emerging market countries had spreads within a range of 100 basis points despite differences in their policies and institutions. Now, the dispersion of spreads between countries is much higher with a 500 basis point range in spreads for the central 50 percent of emerging market countries.

Similarly, the average cross-correlation of returns in the emerging debt markets at times of pressure on Turkey and Argentina have been less than those observed at the height of the Asian and Russian crises in 1997, even after September 11.[43] The Turkish devaluation in February 2001 led to a modest rise in the average cross-correlation between bond spreads on J. P. Morgan's Emerging Market Bond Index plus (EMBI+) to 0.43 compared to peaks of 0.9 during the Asian crisis and 0.8 at the time of the Russian default (Figure 3.). During recent Argentina sell-offs in April (when Argentine sovereign spreads reached nearly 1,300 basis points) and July 2001 (when sovereign spreads reached 1,600 basis points), the average correlation across the index was 0.45 and 0.47 respectively. In August, Mexico was able to go to the market for a new bond issue at just 335 basis points above US Treasury Bonds despite heightened concerns over Argentina. The average cross-correlation of returns on emerging debt rose sharply in September, reaching levels not seen since the Brazilian devaluation. However, some of this rise may reflect the fact that emerging markets were all experiencing similar shocks during this period and the cross-correlation was still below the levels seen at the time of the Russian default and Asian crisis.

These developments are likely, at least in part, to reflect some of the following additional factors:

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[42] This appendix draws on work by the Fund staff and the Bank of England. *Effects of current turmoil in emerging markets may be less widespread than in previous crises*, Subir Lall, IMF Survey Volume 30, Number 16, August 13, 2001. *The International Financial System: A New Partnership*, speech by Mervyn King, Deputy Governor of the Bank of England, at the 20th Anniversary of the Indian Council for Research on International Economic Relations, New Delhi, August 2001.

[43] Movements in Asian stock market indices have become more, not less, correlated since the Asian crisis. This may reflect the shared dependence of these economies on exports, especially in the electronics sector and to certain regions.

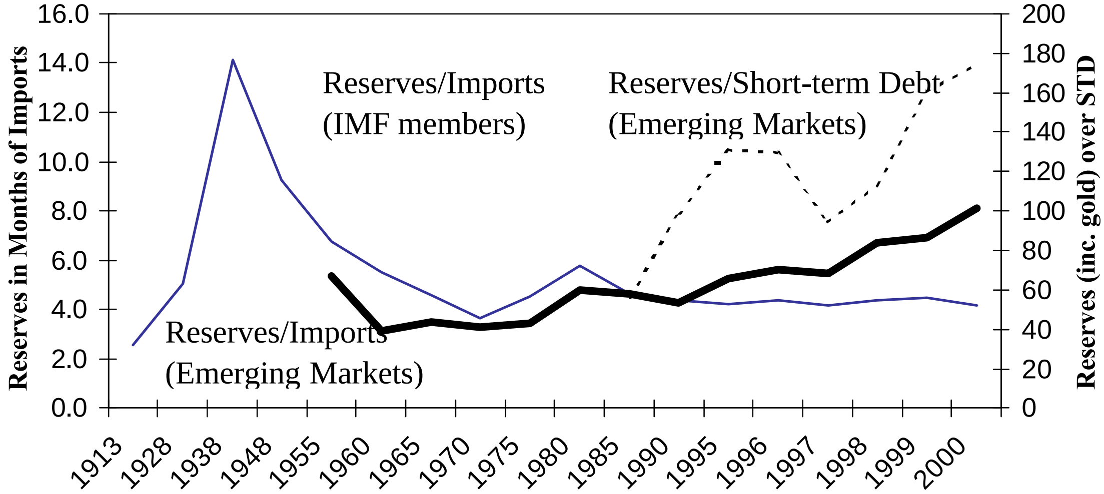
- The composition of investors in emerging markets is rather different than at the time of the Asian crises, with a higher proportion of dedicated and local investors who are more likely to be discriminating.

- The magnitude and type of shocks experienced in 2001 are different than those experienced in 1997.[44]

It is also possible that a larger shock, which led investors to re-evaluate the probability of default for emerging markets in general would lead to much higher correlations between markets.

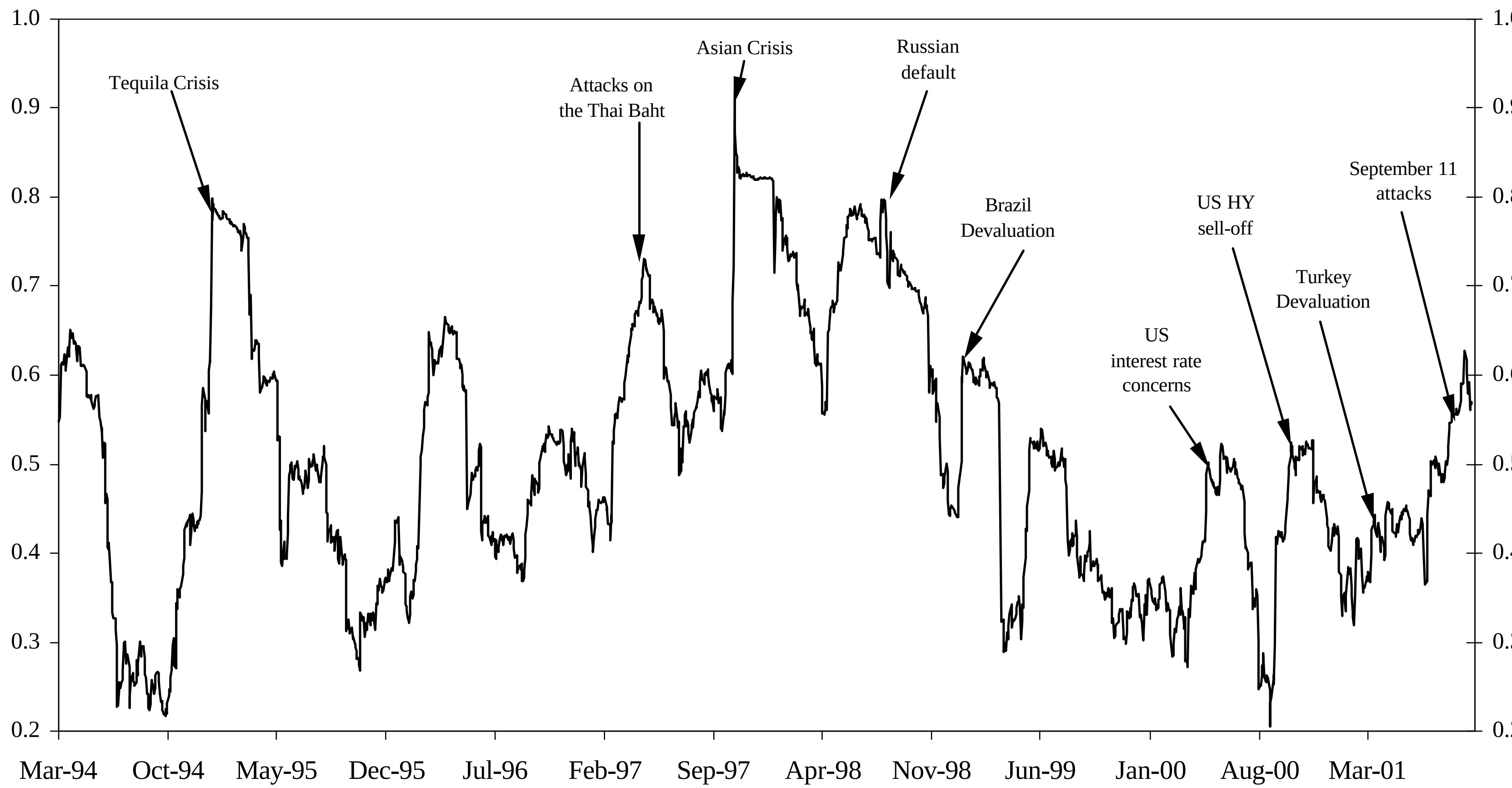
[44] Higher correlations of spreads are usually seen when there are large shocks. If the shock from increased spreads in Argentina and Turkey was not as large as the shocks experienced in the Asian and Russian crises in 1997 this would lead to lower correlations even if investors were not any more discriminating now than in 1997. However, 2001 has seen a downturn in expectations of global growth which could have reinforced the upward move in spreads across emerging market economies. This is in comparison to the experience in 1997 when world demand grew more strongly. This would bias down the correlations and support the view that investors are being more discriminating.

Figure 1. Measures of Reserve Adequacy: Long-Run Trends



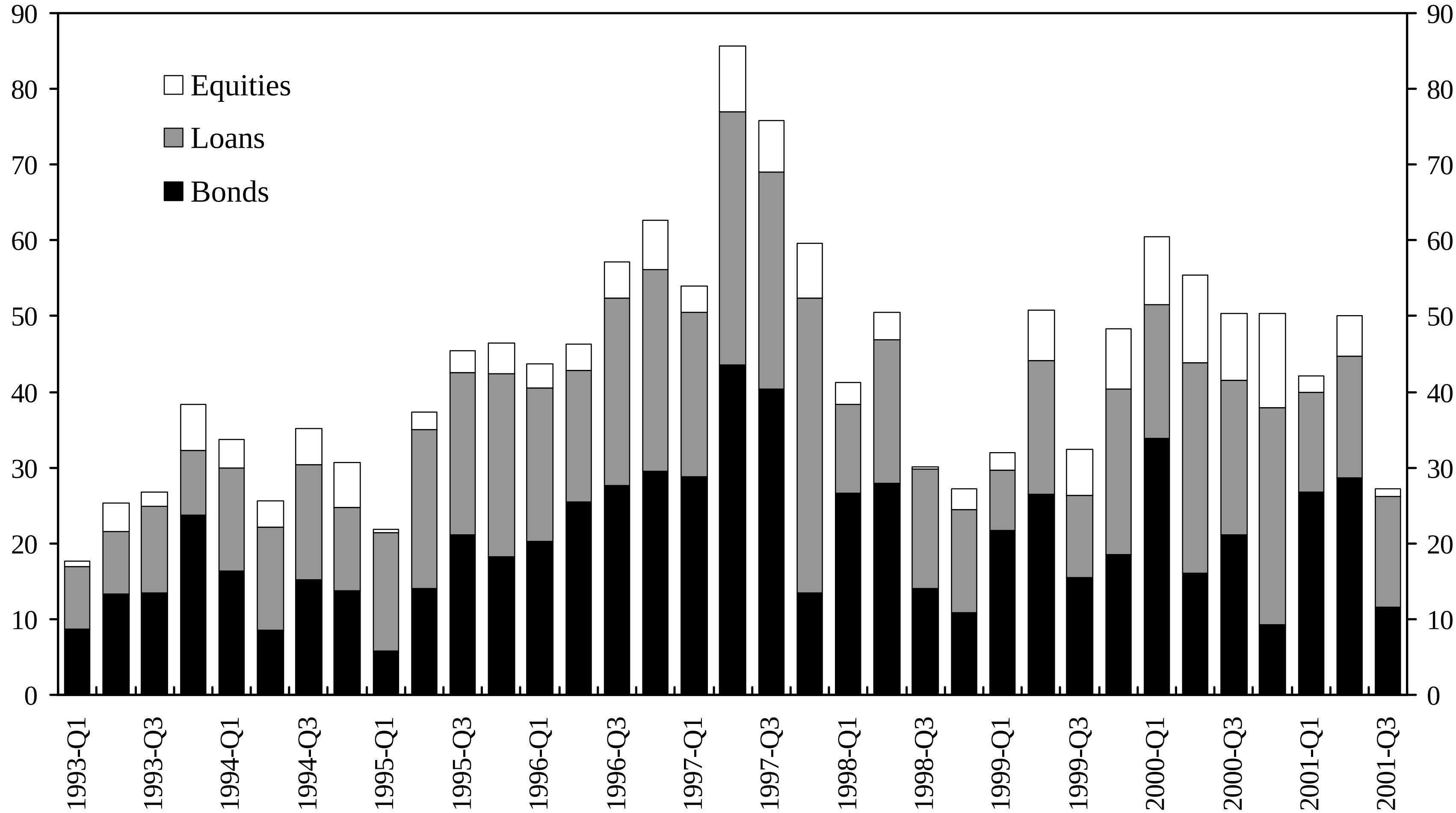
Sources: Bank for International Settlements, Organization for Economic Co-operation and Development, World Bank, International Financial Statistics, and IMF staff estimates.

Figure 2. Average Cross-correlation of Emerging Debt Markets



Source: IMF, Emerging Market Financing, fourth quarter 2000, and staff estimates.

Figure 3. Emerging Markets Financing (US$ bn)



Source: IMF, Emerging Markets Financing in the Third Quarter of 2001 - Developments and Prospects.

Table 1. Comparative Participation in Transparency and Standards and Codes Initiatives 1/ 2/
(As of September 30, 2001)

	(1) Africa	(2) Asia	(3) Central and Eastern Europe	(4) CIS and Mongolia	(5) Western Hemisphere	(6) Middle East, Malta, and Turkey	(7) Advanced Economies	(8) Total IMF Members
Number of Countries	51	28	15	13	32	16	28	183
Initiatives:								
SDDS Subscriber 3/								
Number of countries	2	5	9	0	8	1	23	48
PIN Published								
Number of countries	47	21	14	11	31	6	28	158
Percentage	92%	75%	93%	85%	97%	38%	100%	86%
Article IV Staff Report Published								
Number of countries 4/	20	6	12	2	18	2	25	85
Percentage	39%	21%	80%	15%	56%	13%	89%	46%
FSAPs, Completed So Far								
Number of countries	3	1	5	2	4	3	4	22
Percentage	6%	4%	33%	15%	13%	19%	14%	13%
FSAPs, Completed and Committed								
Number of countries	11	4	10	4	11	7	15	62
Percentage	22%	14%	67%	31%	34%	44%	54%	34%
ROSC Modules, Completed So Far								
Number of countries 5/	9	6	9	6	9	6	11	56
Percentage	18%	21%	60%	46%	28%	38%	39%	31%
ROSC Modules, Completed So Far								
Number of modules	31	11	40	14	23	11	35	165
Percentage of total modules	19%	7%	24%	10%	14%	7%	21%	

Source: Staff estimates.

1/ The regional groupings are based on the composition of World Economic Outlook (WEO) groups.
2/ This table does not include territories, special administered regions (SARs), and monetary unions.
3/ The SDDS was established in 1996 to guide countries that have, or might seek, access to international capital markets in the dissemination of economic and financial data to the public.
4/ The number of countries that have published at least one Article IV report or combined Article IV and Use of Fund Resources report. It should be noted that not all countries had an Article IV consultation.
5/ The number of countries for which at least one ROSC module has been completed.

Table 2. Publication of Policy PINs, Summings Up and Papers

Type of Document	Title	Publication Date 1/
Public Information Notices	IMF Strengthens Standards for Public Dissemination of Data on International Reserves	March 26, 1999
	IMF Takes Additional Steps to Enhance Transparency	April 16, 1999
	IMF Executive Board Reviews HIPC Initiative Modifications*	August 13, 1999
	IMF Adopts Safeguards on Use of Its Resources	April 04, 2000
	IMF Executive Board Reviews Data Standards*	April 11, 2000
	Debt and Reserve-Related Indicators of External Vulnerability	May 19, 2000
	IMF Executive Board Reviews Data Provision for Surveillance	August 07, 2000
	IMF Board Agrees on Changes to Fund Financial Facilities	September 18, 2000
	IMF Executive Board Discusses Involving the Private Sector in the Resolution of Financial Crisis	September 19, 2000
	IMF Reviews the Experience with the Publication of Staff Reports and Takes Decisions to Enhance the Transparency of the IMF's Operations and the Policies of its Members	September 20, 2000
	IMF Concludes Discussions on Review of Access Policy in the Credit Tranches and Under the Extended Fund Facility	September 28, 2000
	IMF Board Reviews Proposal for Streamlining Preliminary HIPC Documents	November 10, 2000
	IMF Board Completes Review of Fund Financial Facilities	November 30, 2000
	IMF Reviews Experience with the Financial Sector Assessment Program (FSAP) and Reaches Conclusion on Issues Going Forward*	February 05, 2001
	Assessing the Implementation of Standards—An IMF Review of Experience and Next Steps*	March 05, 2001
	Executive Board Reviews IMF's Experience in Governances Issues	March 08, 2001
	IMF Executive Board Discusses Conditionality*	March 21, 2001
	IMF Executive Board Discusses Money Laundering*	April 29, 2001
	IMF Executive Board Discusses the Challenge of Maintaining Long-Term External Debt Sustainability of HIPCs	May 04, 2001
	IMF Concludes Discussions on Strengthening IMF-World Bank Collaboration on Country Programs and Conditionality	September 04, 2001
	IMF Executive Board discussed the Enhanced HIPC Completion Point Considerations*	September 27, 2001
	IMF Executive Board Reviews Data Standard*	September 27, 2001

Type of Document	Title	Publication Date 1/
Public Information Notices	Public Information Notice: IMF Concludes Discussions on Review of Access Policy in the Credit Tranche and Under the Extended Fund Facility	September 28, 2001
Statement by the Managing Director	Statement by the Managing Director on the Work Program of the Executive Board	June 08, 2001
Summing Up of the Executive Board Discussions	Summing Up by the Acting Chairman, Review of the Compensatory and Contingency Financing Facility (CCFF) and Buffer Stock Financing Facility (BSFF)*	January 14, 1999
	IMF Tightens Defenses Against Financial Contagion by Establishing Contingent Credit Lines (included in Press Release 99/14)	April 25, 1999
	Summing Up by the Chairman of the IMF Executive Board, International Standards and Fund Surveillance—Progress and Issues*	September 08, 1999
	Concluding Statement by the Chairman, Review of Social Issues and Policies in IMF-Supported Programs; and HIPC Initiative—Strengthening the Link Between Debt Relief and Poverty Reduction*	September 13, 1999
	Summing Up by the Chairman of the Executive Board on the External Evaluation of IMF Surveillance*	September 14, 1999
	Summing Up by the Acting Chairman, Review of Fund Facilities—Preliminary Considerations	March 16, 2000
	Summing Up by the Chairman of the IMF Executive Board—Enhanced Initiative for Heavily Indebted Poor Countries (HIPC) and Poverty Reduction Strategy Papers (PRSP)—Progress Reports and Review of Implementation	September 05, 2000
	Summing Up by the Acting Chairman of the IMF Executive Board—Contingent Credit Lines	November 17, 2000
	Concluding Remarks by the Acting Chairman of the IMF Executive Board, Macroprudential Indicators	August 16, 2001
Staff Papers on Policy Issues	HIPC Consultative Process	February 09, 1999
	Tentative Costing of Illustrative Alternatives to the HIPC Initiative Framework 2/	March 03, 1999
	Heavily Indebted Poor Countries (HIPC)—Perspectives on the Current Framework and Options for Change—Supplement on Costings 2/	April 13, 1999
	Heavily Indebted Poor Countries (HIPC)—Perspectives on the Current Framework and Options for Change—Further Supplement on Costings 2/	May 12, 1999
	Modifications to the Heavily Indebted Poor Countries Initiatives 1/	July 23, 1999
	International Standards and Fund Surveillance—Progress and Issues	August 16, 1999
	Review of Social Issues and Policies in IMF-Supported Programs	August 27, 1999

Type of Document	Title	Publication Date 1/
Staff Papers on Policy Issues	Status Report on Follow-Up to the Reviews of the Enhanced Structural Adjustment Facility	August 30, 1999
	Poverty Reduction Strategy Papers—Status and Next Steps 2/	November 19, 1999
	Heavily Indebted Poor Countries (HIPC) Initiative—Update on Costing the Enhanced HIPC Initiative 2/	December 07, 1999
	Review of the Compensatory and Contingency Financing Facility (CCFF) and Buffer Stock Financing Facility (FSFF)	December 09, 1999
	Poverty Reduction Strategy Papers—Operational Issues 2/	December 10, 1999
	The Poverty Reduction and Growth Facility (PRGF)—Operational Issues 2/	December 13, 1999
	Review of Fund Facilities – Preliminary Considerations	March 02, 2000
	Third Review of the Fund's Data Standards Initiatives	March 15, 2000
	Debt and Reserve-Related Indicators of External Vulnerability	March 23, 2000
	Data Provision to the Fund for Surveillance Purposes	August 07, 2000
	Draft Guidelines for Public Debt Management	August 15, 2000
	Review of Fund Facilities—Follow-Up	August 31, 2000
	Heavily Indebted Poor Countries Initiative and Poverty Reduction strategy Papers – Progress Reports	September 07, 2000
	Key Features of PRGF – Supported Programs	September 07, 2000
	Enhanced Initiative for Heavily Indebted Poor Countries – Review of Implementation	September 08, 2000
	Poverty Reduction Strategy Papers – Progress in Implementation	September 08, 2000
	Involving the Private Sector in the Resolution of Financial Crises-Standstills – Preliminary Considerations	September 21, 2000
	HIPC Initiative – Country Implementation Status Notes	September 23, 2000
	Data Template on International Reserves and Foreign Currency Liquidity – Database and Dissemination of Data	October 13, 2000
	Initiative for Heavily Indebted Poor Countries – Proposal for Streamlining Preliminary Documents	November 10, 2000
	Debt Service Payments After HIPC Initiative Assistance	November 30, 2000
	Involving the private Sector in the Resolution of Financial Crises-Restructuring International Sovereign Bonds	February 05, 2001
	Progress on the HIPC Initiative and PRSP Program	February 15, 2001

Type of Document	Title	Publication Date 1/
Staff Papers on Policy Issues	Progress in Strengthening the Architecture of the International Financial System and Reform of the IMF	March 09, 2001
	Financial Implications of the Shrinking Supply of U.S. Treasury Debt	March 20, 2001
	Conditionality in Fund-Supported Programs	March 21, 2001
	Financial Sector Assessment Program – A Review—Lessons from the Pilot and Issues Going Forward	March 23, 2001
	Assessing the Implementation of Standards – A Review of Experience and Next Steps	March 27, 2001
	Tracking of Poverty-Reducing Public Spending in Heavily Indebted Poor Countries	April 06, 2001
	Review of the Fund's Experience in Governance Issues	April 09, 2001
	Assistance to Post-Conflict Countries and the HIPC Framework	April 23, 2001
	Heavily Indebted Poor Countries Initiative: Status of Implementation	April 23, 2001
	Poverty Reduction Strategy Papers – Progress in Implementation	April 23, 2001
	The Challenge of Maintaining Long-Term External Debt Sustainability	April 23, 2001
	Update on Financing the Fund's Participation in the HIPC Initiative and the Continuation of the Poverty Reduction and Growth Facility	April 27, 2001
	Enhancing Contributions to Combating Money Laundering: Policy Paper 2/	April 29, 2001
	Financial Assistance for the Poorest Members – An Update	May 02, 2001
	Financing the Fund's Operations	May 04, 2001
	Market Access for Developing Countries' Exports 2/	May 08, 2001
	External Review of Quota Formulas: Quantification	May 15, 2001
	Quarterly Report on the Assessments of Standards and Codes	July 12, 2001
	Offshore Financial Centers: Note for the IMF Executive Board	July 18, 2001
	Investor Relations Programs: Report of the Capital Markets Consultative Group Working Group on Creditor-Debtor Relations	July 20, 2001
	Emerging Markets Financing Report—A Quarterly Report on Developments and Prospects	August 08, 2001
	Financial Soundness Indicators: Policy Paper	August 16, 2001
	Macroprudential Analysis: Selected Aspects	August 16, 2001
	Results of the Survey on the Use, Compilation, and Dissemination of Macroprudential Indicators	August 16, 2001

Type of Document	Title	Publication Date 1/
Staff Papers on Policy Issues	Experience with the Insurance Core Principles Assessments Under the Financial Sector Assessment Program	August 31, 2001
	The Impact of Debt Reduction under the HIPC Initiative on external Debt Service and Social Expenditures	September 10, 2001
	Review of the Fund's Strategy on Overdue Financial Obligations	September 21, 2001
	Enhanced HIPC Initiative – Completion Point considerations	September 27, 2001
	Fourth Review of the Fund's Data Standards Initiatives	September 27, 2001

Note: Asterisks denote PINS or Summings Up for which the associated policy papers have been published.

1/ Documents published from January 1999 to October 09, 2001. Where the date of publication on the Fund's website is not available, the date given is the date the document was issued to the Fund's Executive Board.
2/ Joint papers for Fund and World Bank Executive Boards.

Table 3. ROSC- and FSSA- Related Requests (hits) on the IMF External Website: Documents with Most Requests, January 1, 2001- September 30, 2001

	Total Hits [1]	Hits to ROSC reports pages [2]	Total - Non Financial	Total- Financial
Czech Republic	8,938	6,127	1,941	4,186
Bulgaria	7,347	3,875	1,301	2,574
Estonia	7,023	5,323	204	5,119
Canada	6,508	4,136	…	4,136
Ireland	6,362	3,369	…	3,369
Korea	4,353	1,723	1,723	…
Cameroon	4,015	2,360	609	1,751
Tunisia [3]	3,967	…	…	…
France	3,687	1,792	924	868
Turkey	3,654	1,223	1,223	…
Poland	3,428	1,589	962	627
Argentina [3]	3,410	…	…	…
Australia [3]	3,273	…	…	…
India	3,105	1,509	1,509	…
United Kingdom [3]	2,936	…	…	…
Sweden	2,531	932	932	…
Pakistan	2,250	1,153	1,153	…
Albania	2,070	853	853	…
HK SAR of China[3]	2,009	…	…	…
Hungary	1,937	1,083	777	306
Mozambique	1,921	766	766	…
Greece	1,764	551	551	…
Latvia	1,398	635	635	…
Algeria	1,388	1,388	…	1,388
Uganda [3]	1,213	…	…	…
Uruguay	1,200	474	474	…
Mongolia	1,161	456	456	…
Papua New Guinea	1,107	457	457	…
Azerbaijan	1,049	893	893	…
Ukraine	932	932	932	…
Iceland	408	213	…	213
Japan	178	178	178	…
Chile	118	118	118	…
Israel	100	100	100	…
Slovenia	73	73	…	73

Source: Fund Staff estimates.

1/ Includes unadjusted hits and hits to tables of contents. In some cases, such pages also contain one or more ROSC reports.
2/ Hits to pages containing ROSCs reports.
3/ All ROSC reports are combined in one document (HTML page).