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Contents

1999 Annual Meetings

Governors welcome recovery from crisis, endorse debt relief for poorest countries

A far-reaching commitment to provide increased debt relief to the poorest developing countries was endorsed by the governors of the World Bank and the IMF at their fifty-fourth Annual Meetings, held in Washington, D.C. from September 28 to September 30. The governors also welcomed the progress many countries have made in recovering from the financial crises that had affected their economies in 1997–98 and early 1999, even though in a number of cases deep problems still remain.

At the opening session of the 1999 Annual Meetings are (left to right) World Bank President James Wolfensohn, Annual Meetings Chair Mahesh Acharya, and IMF Managing Director Michel Camdessus.

The Annual Meetings opened on September 28 with the address of Mahesh Acharya, Finance Minister of Nepal, who chaired the meetings (see page 312). His remarks were followed by the opening addresses of IMF Managing Director Michel Camdessus and World Bank President James Wolfensohn.

Recovery from crisis

In his address, Camdessus stressed that "the recovery comes from the intense effort, the wisdom, and, most emphatically, the sense of cooperation of all concerned."

Building on this theme, he emphasized that, "in the new world of globalization, cooperation is a must." A second lesson, he said, "is that we always run the risk, when economic prospects have improved, of moving too slowly to implement the reforms that are needed. There is still an urgent need for action."

It is important, Camdessus said, to move ahead with building "a safer, more robust, more adaptable architecture" of the monetary and financial system. Essential elements of this new architecture, he observed, are measures to prevent crises, enhance transparency, improve financial sector stability, and define global standards to underpin stable, fair, efficient, and transparent markets. Ultimately, the Managing Director said, "finances and markets are about people and for people." With the transformation of the Enhanced Structural Adjustment Facility (ESAF) into the Poverty Reduction and Growth Facility (PRGF); the deeper, faster, and broader debt relief provided by the new Initiative for Heavily Indebted Poor Countries (HIPC); and the strong link established between debt relief and increased expenditure on human development, he said, "the IMF is now well equipped to give a new impulse to the fight against poverty."

This theme was echoed by the central bank governors and finance ministers of the IMF's 182 member countries, who, in their addresses, were unanimous in welcoming the progress toward recovery in the crisis economies. At the same time, a number of speakers recognized the continuing problems that, despite progress, affect the Russian economy and the recent threats to Indonesia's economic stability. Speakers also welcomed the progress that had been made in Brazil and other countries of Latin America in recovering from the recent crisis. Representatives of developing countries, in particular, welcomed the progress that had been made on the debt issue and stressed the urgent need to move forward in the fight against world poverty.

U.S. President Bill Clinton addressed the plenary session on September 29.

Action on debt

Announcing a significant commitment, U.S. President Bill Clinton said in the plenary session on September 29 that he was directing his administration to move to forgive 100 percent of the debt owed to the United States by the heavily indebted poor countries when they commit to using the money to finance basic human needs. A similar commitment was later made by Gordon Brown, the U.K. Chancellor of the Exchequer.

Under the terms of the agreement on debt, which is now being considered by the IMF Executive Board, the IMF would conduct off-market transactions with member countries, on the basis of market prices, of up to 14 million fine ounces of gold. The balance of the sales proceeds will be used for investments benefiting the ESAF-HIPC Trust (see page 308). The framework of the understanding on debt was outlined in the Cologne Debt Initiative, approved by the members of the Group of Eight countries in June 1999 (*IMF Survey*, July 5, page 209).

Consensus of the meetings

"These have been a truly productive few days," Camdessus said in his concluding remarks on September 30 (see page 329). Summing up the consensus of the meetings, he welcomed the "striking unity" displayed by the governors in their assessment of current economic prospects; their "overwhelming endorsement" of the efforts to deal with the recent crises; and "above all, the enhancement of the HIPC Initiative, the launching of our Poverty Reduction and Growth Facility, and all that goes with these steps," which have created a "strong new impetus to the war on poverty."

Camdessus said he had detected three key themes in the discussions. These were the determination to avoid complacency; the encouraging impetus toward action and implementation in the twin areas of international monetary and financial reform and poverty reduction, with the IMF's partnership with the World Bank being critical in the latter area; and the obligation to deliver on the part of both the international community and national governments.

The plenary sessions were preceded by meetings of the Interim Committee of the IMF's Board of Governors—the IMF's principal advisory body—and of the Development Committee (the Joint Bank-IMF Committee on the Transfer of Real Resources to Developing Countries), as well as meetings of the Group of Seven industrial countries and the Group of 24 developing countries.

As a mark of the growing status of the Interim Committee, on September 30, the IMF Board of

Annual Meetings 1999 on the web

In addition to the full transcripts of the speeches, communiqués, and press conferences covered in this issue, the IMF's website (www.imf.org) has posted a number of items of interest related to the 1999 Annual Meetings (dates posted in parentheses).

• **Financial Sector Crisis and Restructuring: Lessons from Asia** (the report and the transcript of the press briefing given by Stefan Ingves, Director, Monetary and Exchange Affairs Department, and other members of the department) (September 25).

• **Overview: Transforming the Enhanced Structural Adjustment Facility and the Debt Initiative for the Heavily Indebted Poor Countries** (September 26).

• **Statement by the Managing Director on Progress in Strengthening the Architecture of the International Financial System** (September 26).

• **Economic Prospects for the Countries of Southeast Europe in the Aftermath of the Kosovo Crisis** (September 27).

• **The 1999 Per Jacobsson Lecture, "The Past and Future of European Integration: A Central Banker's Perspective," by Willem F. Duisenberg** (September 27).

• **Debt Initiative for the Heavily Indebted Poor Countries: Progress Report** (September 28).

• **Press Briefing on IMF Financing of Debt Relief,** September 27, by Benedicte Christensen of the IMF Treasurer's Department and Anthony R. Boote of the IMF Policy Development and Review Department (September 29).

Chilean Finance Minister and incoming IMF Deputy Managing Director Eduardo Aninat (right) meets with Michael Moore (left), Director-General of the World Trade Organization, and Juan Somavia, Director-General of the International Labor Organization.

Governors adopted a resolution transforming the Committee into the International Monetary and Financial Committee of the Board of Governors (see page 318). In addition to the name change, there is now an explicit provision for preparatory meetings of committee deputies.

Interim Committee meeting

In his capacity as Chair of the Interim Committee, Gordon Brown welcomed the agreement on debt relief as marking the birth of a "worldwide alliance against poverty." Speaking at a joint press conference with the Managing Director following the Committee's meeting on September 26, he said, "those to whom the world's greatest wealth has been given have joined with those burdened down with the world's greatest debt and destitution" (see page 315).

The increased emphasis on action on debt relief was symbolized by the first joint meeting of the Interim Committee and the Development Committee of the IMF and the World Bank, which was also held on September 26. This joint meeting, Brown said, was a sign of "the cooperation and commitment of all countries and institutions to the enhanced debt-relief initiative, which will provide faster, deeper, and broader debt relief with the central goal of reducing poverty in the world's poorest countries." The joint meeting, he explained, made progress in three areas: in reforms to deliver faster, deeper, and wider debt relief; in strengthening the focus on poverty reduction; and in agreeing on the financing arrangements for the enhanced HIPC Initiative through off-market gold transactions with IMF member countries (see page 314).

In its communiqué (see page 317), the Interim Committee welcomed the improvement in global economic and financial conditions since the beginning of 1999, and

• noted that recovery was taking hold in the crisis-affected countries of Asia, but with further efforts needed to accelerate financial sector reform and corporate restructuring;

• stressed the urgent need for further progress with reforms in Russia;

• noted the need for stronger adjustment and reform efforts in much of Latin America;

• noted the renewed opportunity for fiscal consolidation and economic diversification in countries in the Middle East and Africa that had benefited from higher oil prices; and

• urged the heavily indebted countries of sub-Saharan Africa to take full advantage of the opportunity offered by debt relief under the enhanced HIPC Initiative to intensify and press ahead with reforms.

Regarding the industrial countries, the Committee noted that a sustained pickup in domestic demand in Europe and Japan, together with medium-term growth in the United States in line with potential, would help to achieve a more balanced pattern of growth among this group of countries. It called for continued efforts to strengthen the banking system and foster corporate restructuring in Japan, as well as further efforts toward fiscal consolidation and structural reform in Europe.

The Committee stressed that open and competitive markets were a key component of efforts to sustain growth and stability in the global economy. It stated that the proposed launch of new trade negotiations at the November 1999 meeting of the World Trade Organization in Seattle, Washington, provided an opportunity to make further progress in this direction.

Mohammad Zuhdi Nashashibi (left), the Palestinian Authority's Minister of Finance, greets Jacob Frenkel, Governor of the Bank of Israel.

Poverty reduction

The Interim Committee endorsed the replacement of the IMF's ESAF by a new Poverty Re-duction and Growth Facility, which will aim to make poverty-reduction efforts among low-income member countries a more explicit element of a renewed growth-oriented economic strategy. Under this new approach,

• each country will prepare a comprehensive Poverty Reduction Strategy Paper, with assistance from the IMF and the World Bank, to guide the design of programs;

• social and sectoral programs to reduce poverty will be taken fully into account in the design of growth-oriented economic policies;

• great emphasis will be accorded to good governance through greater transparency, improved monitoring, anticorruption initiatives, accountability, and involvement of all sectors of society; and

• high priority will be given to key reforms designed to achieve governments' social goals.

The Committee also welcomed the agreement on financing the HIPC Initiative and the IMF's continued lending for growth and poverty reduction in its low-income member countries. It stated that the planned off-market transactions of up to 14 million fine ounces of gold would be an exceptional measure and part of a broader financing package to allow the IMF to contribute to resolving the debt problems of the HIPCs at the turn of the millennium.

Hilde Frafjord Johnson (left), Norway's Minister of International Development and Human Rights, confers with Marianne Jelved, Denmark's Minister of Economic Affairs.

Financial architecture

The Committee welcomed the progress made in developing and monitoring standards of importance for the international monetary and financial system. In particular, it adopted the Code of Good Practices on Transparency in Monetary and Financial Policies: Declaration of Principles, developed by the IMF staff.

The Committee also reiterated the importance of greater transparency in policymaking. It welcomed the widespread release of Public Information Notices (PINs) and many other papers and reports; the decisions of 46 countries to participate in the pilot program to release Article IV reports; and the presumption in favor of publishing Letters of Intent, Memorandums of Economic and Financial Policies, and Policy Framework Papers.

Corruption and money laundering raise important issues for the credibility of IMF programs, the Committee warned. It called on the IMF to review its procedures and controls to identify ways to strengthen safeguards on the use of its funds and to report at the Committee's next meeting on April 16, 2000. It emphasized that further actions to strengthen governance at both the national and international levels were crucial.

The Committee welcomed the further measures toward greater transparency that had been adopted, including the progress made in financial sector reform and bank restructuring in the context of IMF surveillance; the external evaluation of IMF surveillance and research activities (*IMF Survey*, September 27, page 303); the continuing efforts to involve the private sector in forestalling and resolving financial crises; and recent work on the appropriate pace and sequencing of capital account opening. It called on all member countries to put in place millennium contingency plans and endorsed the IMF Executive Board's decision to introduce a temporary facility to help members facing Y2K-related payments needs (see page 335).

Development Committee

The HIPC Initiative was also the major issue of concern at the meeting of the Development Committee, chaired by Tarrin Nimmanahaeminda, the Thai finance minister.

In its communiqué (see page 326), the Development Committee endorsed the enhancements to the HIPC Initiative and expressed support for lowering the debt sustainability thresholds; providing faster debt relief through interim assistance; introducing floating completion points to focus on positive achievements and outcomes; and, as a consequence, increasing the number of countries eligible for debt relief. ■

Board of Governors envisions off-market gold sales to finance debt relief

On September 30, the IMF announced it was considering a one-time gold sales operation as part of a broader financing package. The text of Press Release No. 99/47, which is also available on the IMF's website (www.imf.org), follows.

The IMF Executive Board is considering conducting off-market transactions of up to 14 million fine ounces of gold. On the basis of market prices, the IMF will sell gold to some central banks of member countries with repayment obligations to the IMF, on the understanding that these central banks will use the gold to make the repayment. These transactions will allow the IMF to place an amount of the sales proceeds equivalent to SDR 35 an ounce in the General Resources Account, and the balance in the Special Disbursement Account for investments benefiting the ESAF-HIPC Trust.

According to a resolution adopted by the Board of Governors on September 30, "off-market transactions of up to 14 million ounces of gold by the IMF that are envisaged will be a onetime operation of a highly exceptional nature that is part of a broader financing package to allow the IMF to contribute to the resolutions of the debt problems of the HIPCs at the turn of the millennium and to the continuation of concessional operations to support countries' efforts to achieve sustained growth and poverty reduction."

Managing Director's opening address

Camdessus says cooperation is essential, calls for action to ensure reforms

Following are edited excerpts of the opening address by IMF Managing Director Michel Camdessus to the Board of Governors of the IMF on September 28 in Washington, D.C. The complete text is available on the IMF's website (www.imf.org).

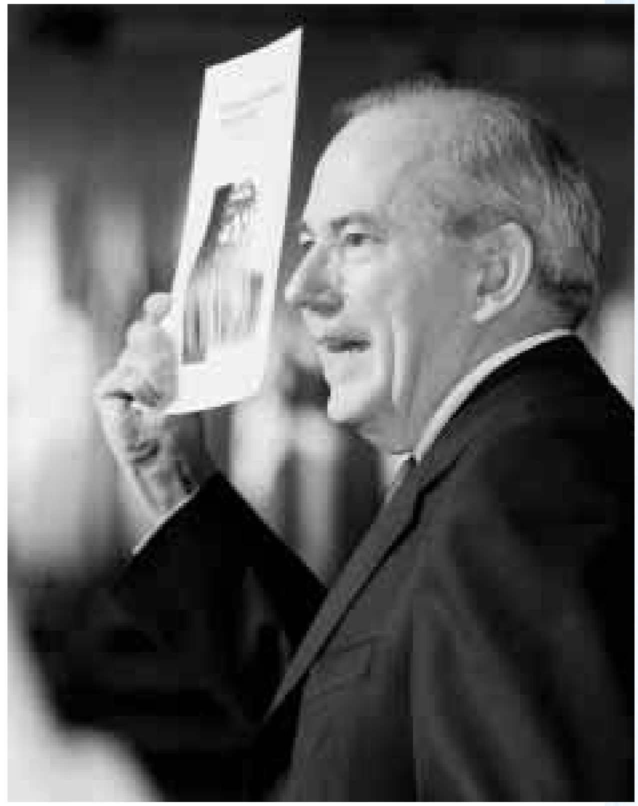
Governors, the global economy has passed through a great ordeal. For a time, we faced the threat of the most extensive and the harshest crisis since our institutions were established. Its human cost has been immense, and we may need a few more years to heal all the wounds. Now, the storm is abating, even though some risks remain. Several countries that were in the depths of crisis—Korea, Thailand, the Philippines, Brazil, and others—are advancing in their recovery. Above all, the recovery comes from the intense effort, the wisdom, and, most emphatically, the sense of cooperation of all concerned.

A major lesson of this crisis is that, in the new world of globalization, cooperation is a must. A second lesson is that we always run the risk, when economic prospects have improved, of moving too slowly to implement the reforms that are needed. There is still an urgent need for action. So I shall largely confine my remarks to the two domains where I see a pressing need to move quickly to implementation: reform of the international monetary and financial system and the offensive to eradicate poverty and humanize globalization.

Russia and Indonesia make progress

Before proceeding, let me say a few words about IMF programs with two of our largest members—Russia and Indonesia. In Russia, the economy is recovering, and the program that began in July this year is on track. We look forward, as the program moves ahead, to Russia's advance in both structural reforms and improved governance. We should not lose sight of the real progress that has been achieved during seven years of endless efforts to assist Russia in its journey toward a market economy. Nor should we ignore the fundamental decision, on which Russia has not wavered, to seek to develop a modern market economy and integrate itself into the international community.

In troubled Indonesia, the government turned the economy around after taking office last year. Economic stability in turn helped make possible the freest elections in Indonesia's history. Now, these achievements are threatened. But, we stand ready to resume our assistance as soon as the shadows hanging over the program are lifted. We expect to continue working with the next government of Indonesia to help the country achieve its great potential, while we look forward to contributing, when the day comes, to the rebuilding and sustainable development of East Timor.



In his opening address, Managing Director Michel Camdessus holds up the Declaration on Partnership for Sustainable Global Growth, this is part of the 1996 Interim Committee communiqué.

Monetary and financial reform

First, in the area of architecture, work is in progress. Sunday's communiqué of the Interim Committee contains an impressive catalog of steps. They focus on prevention; transparency; financial sector stability; and the definition of global standards to underpin stable, fair, efficient, and transparent markets. An important step forward is the Committee's adoption of the Code of Good Practices on Transparency in Monetary and Financial Policies. New facilities have been created: the Contingent Credit Lines and the Y2K facility. The foundations of a safer, more robust, more adaptable architecture are there. But progress is slower in other areas where full consensus has yet to emerge.

First, on the *scope and focus of surveillance,* several aspects are unquestionable:

• its central role in the work of the IMF;

• its priority in allocating our human and budgetary resources, since only the IMF has this mandate;

• its growing importance in a new environment where early detection of emerging problems is of the essence; and

• its primary focus on matters that are the traditional mandate of the IMF—monetary stability, balance of payments sustainability, and growth-oriented economic policies.

But major destabilizing factors can emerge anywhere. These risks call for robust banking and financial systems; sound, transparent, and participatory governance; arm's-length relationships among governments, banks, and enterprises; and supportive social policies. How, and to what extent, do we integrate these concerns into our surveillance and how do we interact with the many other agencies? How can we avoid further stretching an already overloaded staff? And, last, how can we proceed with the monitoring and implementation of standards, particularly where they lie outside our traditional mandate?

We must clarify these issues. A significant part of our response will rely on the arrangements we will set up with other agencies to share the task of disseminating and monitoring standards that lie outside the IMF's main areas of expertise.

Next, we have the problem of *private sector involvement in crisis prevention and resolution*. The volatility of private capital flows can and must be diminished by promoting a mature relationship between creditors and their sovereign clients and between the financial community and the official sector. The involvement of the private sector is a matter of practical necessity, since the private sector will be increasingly important for financing the emerging market and developing countries. But, crises may arise that would benefit from closer cooperation. We must try, drawing on the lessons of the cases that have arisen recently, to distill a set of principles that could help to resolve crises at less cost than in the past. That being done, it will remain important to have—for the protection of both creditors and debtors—a way of ensuring that countries are given time, in extreme circumstances, to seek orderly resolution with their creditors. One avenue consists in designing a mechanism that will permit a temporary stay of litigation through an appropriate amendment or interpretation of the IMF's Article VIII(2*b*).

Third, we have the debate on the relative merits of all-out *liberalization of capital movements* and the illusory virtues of exchange controls. Consensus is achievable on the way to proceed with the orderly liberalization of capital movements. We have two core messages: in the long term, liberal arrangements for capital movements are beneficial to global economic development, and liberalization should be orderly and tailored to individual countries' situations.

Fourth, the question of *exchange rate regimes*. We know quite well that many of the problems of the so-called casino economy are related to the nature of exchange rate regimes and to the shortcomings of international cooperation in this field. We have witnessed the effect of deficiencies in exchange systems or exchange rate management in triggering or amplifying crises and their key role in transmitting domestically generated crises. And we know well the role played by the volatility of exchange rates in what seems, at times, the sheer irrationality of market developments. For the time being, today's diversity of exchange rate regimes will continue, but the greater mobility of capital has made the maintenance of fixed exchange rates more demanding. In considering how to improve exchange stability, we can be encouraged by

- the widespread recognition of the essential role of the soundness of economic fundamentals, and
- the remarkable success of the introduction of the euro with its potential to become a strong player in an orderly multipolar system.

Humanizing globalization

Sound finances clearly involve sophisticated instruments, standards, and smoothly working markets, but, ultimately, finances and markets are about people and for people. And it is the hard, demanding task of the IMF, even if it is not a development institution, to try to help governments to be responsive to the cries

7 pledges on sustainable development

- **Reducing extreme poverty**

The proportion of people living in extreme poverty in developing countries should be reduced by at least one-half by 2015.

- **Universal primary education**

There should be universal primary education in all countries by 2015.

- **Gender equality**

Progress toward gender equality and the empowerment of women should be demonstrated by eliminating gender disparity in primary and secondary education by 2005.

- **Infant and child mortality**

The death rates for infants and children under the age of 5 years should be reduced in each developing country by two-thirds of the 1990 level by 2015.

- **Maternal mortality**

The rate of maternal mortality should be reduced by three-fourths between 1990 and 2015.

- **Reproductive health**

Access should be available through the primary health-care system to reproductive health services for all individuals of appropriate ages, by no later than 2015.

- **Environment**

There should be a current national strategy for sustainable development, in the process of implementation, in every country by 2005, so as to ensure that current trends in the loss of environmental resources are effectively reversed at both global and national levels by 2015.

of the poor. I believe that we must keep in our minds and hearts the heartbreaking message of the two teenagers from Guinea, found dead in the landing gear bay of an airliner. They said, “we suffer enormously in Africa. Help us. We lack rights as children. We have war and illness, we lack food.... We want to study, and we ask you to help us to study so we can be like you.” This is a message from those in absolute poverty. It tells us that the extent of poverty still present at the end of a century of affluence is intolerable. So it is time to respond.

But this is not new for you: social policies are central elements of government budgets, of donors’ aid programs, and of international communiqués. Nor are these issues new to the IMF; for many years, IMF-supported programs have explicitly incorporated social policies. During the past decade, in most countries implementing IMF-supported programs, education and health care have significantly increased in real per capita terms. At the same time, there have been improvements in important social indices. But the voices of the poor around the world are telling us in no uncertain terms that this is not enough.

There are two dimensions in the war against poverty: one national, the other international. The first will remain predominant. Poor countries themselves need to generate high-quality growth. We can learn from the positive experiences of many African countries that, assisted by IMF-supported programs, have begun to reverse the sad cycle of declining per capita growth, high inflation, and external imbalances. We know the ingredients: a stable macroeconomic environment; an open, efficient market economy; a framework that fosters private investment; and transparency, financial sector soundness, robust economic institutions, and good governance—in particular, respect for the rule of law and an independent judicial system that recognizes property rights, enforces contracts, and protects basic citizens’ rights.

A vital interrelationship exists between growth and social development. Strong social policies that address poverty at its roots lay the foundation for sustained economic growth. This is why we must aim to eradicate poverty. For that, an international contribution is indispensable.

A central element will be the transformation of the Enhanced Structural Adjustment Facility (ESAF) into the Poverty Reduction and Growth Facility, to incorporate the lessons of more than 10 years of experience, a new level of cooperation with the World Bank, new steps for debt reduction, and an explicit link with poverty reduction. A key feature will be the formulation by countries of their own comprehensive growth-oriented policies designed to reduce poverty. We look forward to the continued deepening of cooperation with the World Bank and the regional development banks to implement these changes and to tap their expertise. Equally, we believe this approach will foster more fruitful contacts with donors, official agencies, and civil society.

With the integration of social objectives at the heart of our programs; the deeper, faster, and broader debt relief provided by the new initiative for Heavily Indebted Poor Countries (HIPCs); the strong link established between debt relief and increased human development expenditure; and the adoption of the key principles of the new facility, the IMF is now well equipped to give a new impulse to the fight against poverty.

But, there is a price to pay for debt reduction. And for the IMF it is high. It has implied that we engage in exhaustive negotiations to convince countries to contribute to this effort. For their contributions, I thank all of them—more than 90 countries, of whom the large majority are developing or transition countries, including several who have used ESAF resources themselves. We have accepted that the IMF should almost triple from 5 million ounces to as much as 14 million ounces the stock of gold we will utilize to generate, through off-market transactions, the earnings needed to complete our contribution.

For this strategy of poverty eradication to be credible, one important element is to boost trade as well as aid. The industrial countries must make a bolder effort to open their economies to all the exports of the poorest countries. At the same time, the trend decline in official development assistance must be reversed.

In conference after conference, we—industrial, developing, and transition countries, and international agencies—have pledged to promote human development. In the Copenhagen Declaration, we pledged to reduce by half the level of extreme poverty by 2015. In other international gatherings, we have pledged to realize at least six other challenging targets in the next 15 years (see box, page 310).

Finally, we cannot forget the repeated demands for the alleviation of postconflict situations; in many countries, good policies have not survived the resurgence of armed conflict. We will continue to respond to these tragic situations, but we must be more proactive. That is why initiatives for peace are essential.

As we look back at the past two years, we take pride in having worked with you and learned with you; we were saddened, as you were, at the difficulties facing your people and have rejoiced when your policies with our support have begun to show positive results. All these efforts have bought us time, not for celebration, but for action to move the world economy from its present recovery to a path of high-quality sustainable growth and through that, through all our techniques and thoughts, to full humanization. It is time for action.

Chair's opening address

Acharya stresses crisis prevention is key to raising living standards and protecting the poor

Following is a summary of the September 28 opening address of the Annual Meetings Chairman, Mahesh Acharya, Governor of the Bank and the IMF for Nepal.

Many millions of people in the world look to the IMF and the World Bank for wisdom in matters of finance and development. Against this background, Mahesh Acharya spotlighted two major challenges facing the two institutions at the dawn of the new millennium. The first is to distill lessons from the recent financial crises. The second is to address the pressing needs of the institutions' most disadvantaged members.

It has been two years since the financial crisis of the late 1990s started in East Asia. Acharya commended the effective response of the Bank and the IMF in supporting reform in the affected countries, a number of which have begun to recover. However, aftershocks continue to affect several countries, exposing weaknesses in the public, financial, and corporate sectors and underscoring the need to protect the poor and the vulnerable. Net long-term flows to developing countries, from private and official sources, are declining, and Acharya stressed that the transfer of resources to developing countries should continue to be a major concern of the international community.

Acharya: "We must ensure that all countries can benefit from globalization."

Global issues

Since last year's Annual Meetings, the outlook for the world economy has improved, although Acharya cautioned against complacency. Not all countries have attained sufficient economic growth to address poverty, and many have been unable to improve income distribution. "We must," he said, "ensure that all countries can benefit from globalization through an orderly and well-sequenced integration into the world economy." In this context, developing countries must participate fully in any new round of multilateral trade negotiations.

The growth of world output is expected to increase moderately next year, although the pattern of growth among the major industrial countries is uneven. Ensuring the continuation of the global expansion will require a significant rebalancing of growth and addressing the existing large external imbalances. Sustaining the recovery in the crisis-hit economies and reducing the vulnerability of all developing countries to external shocks will require the continued vigorous pursuit of structural reforms. This highlights the need to focus on high-quality, broad-based growth to ensure that all levels of society benefit from reform programs.

Strengthening the architecture

The ultimate aim of efforts to strengthen the international financial system, Acharya emphasized, must be to protect living standards worldwide by preventing future crises. He noted two positive developments in this area: the IMF's recent creation of the Contingent Credit Lines as a crisis-prevention mechanism and of a temporary facility to help members with Y2K-related balance of payments difficulties. Progress has been made in improving transparency and in developing, disseminating, and adopting internationally accepted standards for economic, financial, and business activities. Work has also progressed on financial sector strengthening and on involving the private sector in forestalling and resolving crises.

Poverty reduction and challenges

Global progress in reducing poverty has not been satisfactory, Acharya said, despite improvements in social indicators. The number of poor people in South Asia, sub-Saharan Africa, Europe, and Central Asia is rising, particularly in the regions most affected by crisis and conflict. He exhorted policymakers to shape their strategies to avoid inadvertently inflicting long-term hardships on the poor by triggering lower investment in education and health.

Financial assistance to developing countries

Hundreds of millions of the world's poor live in countries where crushing debt stands in the way of lasting poverty reduction. Although the Heavily Indebted Poor Countries Initiative has yielded some positive results, Acharya observed that recent developments and experiences have highlighted the vulnerability of many HIPCs to exogenous shocks. It is our duty, he said, to reinforce and enhance this program to provide faster, deeper, and broader debt relief. He stressed that debt relief under this initiative should complement, not replace, development assistance and that debt relief must become an integral part of efforts to help countries grow and reduce poverty. It is also important that the resources freed from debt service be used for the development of the social sector. Acharya urged that consideration also be given to alleviating the debt burdens of poor countries that are not eligible for the HIPC Initiative.

Our two institutions, concluded Acharya, face a mammoth agenda, but our common resolve will take us to the height of success. He expressed confidence that the IMF and the World Bank would be able to meet the formidable challenges of the next century. ■

World Bank President's opening address

Wolfensohn calls for international commitment to build new global development architecture

Following is a summary of the opening remarks by World Bank President James D. Wolfensohn on September 29 in Washington, D.C. The full text is available on the IMF's website (www.imf.org).

Harking back to last year's Annual Meetings, held in an environment dominated by financial and human crisis, Wolfensohn cautioned against taking comfort in thoughts of a financial crisis passed because, "for millions, that other crisis still lives." The world at the threshold of the new millennium, he said, is a mixed picture of great accomplishments and great challenges. Life expectancy is the highest it has been in the past 4,000 years, technology holds out the promise of universal access to knowledge, democratic culture has created opportunities for many, and 5.7 billion people live in a market economy. A closer look, however, reveals that per capita incomes in most regions will stagnate or decline this year; in the developing world, except China, more people are living in poverty today than a decade ago; too many people still lack access to safe water; the world's forests are being destroyed at the rate of an acre a second; and more than 33 million people are suffering from AIDS. The crisis, Wolfensohn emphasized, is not over. It is a time for action.

Wolfensohn: "We need a new international development *architecture to parallel the new global financial architecture."*

New approach to development

What have we learned about development? Wolfensohn enumerated the lessons: development is possible but not inevitable; growth is essential, but not in itself enough, to reduce poverty; poverty must be paramount in any development strategy; and, development requires local ownership and participation. He stressed the need for donors to bear these lessons in mind in future development agendas and, in addition, to better coordinate their activities. In recognition of the need for better coordination, the World Bank launched the Comprehensive Development Framework in 1999. Its goal is to unite the social and structural aspects of development with the macroeconomic and financial aspects to establish a more balanced and effective approach. The approach, according to Wolfensohn, is widely supported as a process for pursuing "long-term, results-driven development with the country in the driver's seat and in partnership with the broad development community."

Wolfensohn said that it had become clear over the past 12 months that bad governance—corruption, crime, and a lack of accountability and transparency—was the primary impediment to development and poverty reduction. Weak governance threatens to marginalize countries and whole peoples from the economic mainstream by hampering their progress in education, health, water, energy, and rural and urban development.

What will it take, he asked, to move from powerlessness to a democratic culture, from weakness to capacity for action, from violence to peace and equity? It will take, among other things, a real commitment from each country's leaders; a willingness to reform systems of government, regulations, and institutions; strong local institutions to bring government closer to the poor; and an approach that empowers local people to design and implement their own programs.

International development architecture

It is well known that nations are dependent on each other, that they are no longer the sole masters of their destinies. Thus, Wolfensohn said, "we need global rules and global behavior. We need a new international *development* architecture to parallel the new global financial architecture," with everyone assuming responsibility for global equity, which is the only assurance of peace. This new development architecture can be achieved through coalitions for change that should be built with the private sector to bring investment, create jobs, promote the transfer of technology and skills, and foster social responsibility. Coalitions with civil society and communities would mobilize grass roots support for health, education, and poverty reduction. Coalitions with government would assist them in taking charge of their own development agendas with the participation of their citizens. Wolfensohn concluded by pledging to work with all the Bank's partners to build these coalitions for change and begin to put in place the new development architecture. ■

Joint statement

Interim and Development Committees agree on need for deeper, broader, faster debt relief

Following are the edited excerpts of the statement by the chairs of the Interim and Development Committees after the joint meeting of the committees on September 26 in Washington, D.C. The full text is available on the IMF's website: www.imf.org.

Ministers of the Development and Interim Committees met jointly for the first time this morning to discuss the enhancement of the Heavily Indebted Poor Countries (HIPC) Initiative, which will provide faster, broader, and deeper debt relief, with the central goal of reducing poverty in the poorest countries in the world. This meeting symbolizes the cooperation and high political commitment of all countries and institutions in this effort and the new closer relationship between the World Bank and the IMF, which will be crucial in achieving this goal.

We focused on three main areas: first, the reforms required to deliver deeper, broader, and faster debt relief; second, strengthening the focus on poverty reduction in Bank and IMF programs; and third, an overview of the financing arrangements that will allow the enhanced HIPC Initiative to start after these Annual Meetings.

At the first-ever joint meeting of the Interim and Development Committees, José Angel Gurría Trevino (left), Mexico's Secretary of Finance and Public Credit, greets Interim Committee Chair Gordon Brown (center) and Development Committee Chair Tarrin Nimmanahaeminda.

We endorsed the enhancements and reforms to the HIPC Initiative for those countries pursuing sound policies and committed to reform. We support lowering the debt sustainability thresholds; providing faster debt relief; shifting the focus of the initiative toward a commitment to, and positive achievements in, poverty reduction; and increasing the number of countries expected to be eligible for debt relief.

We stressed the need to ensure that debt relief will reduce poverty and endorsed the framework proposed by the Bank and the IMF for strengthening the link between debt relief and poverty reduction. In particular, we welcomed the proposed Poverty Reduction Strategies that countries will prepare in close collaboration with the Bank and the IMF. We stressed the need to put in place macroeconomic, structural, and social policies that will generate growth and contribute to poverty reduction. We stressed the crucial role good governance must play in HIPC poverty reduction and implementation of debt relief. We also endorsed the proposals to strengthen the poverty focus of all International Development Association (IDA) and IMF concessional programs.

We agreed that Poverty Reduction Strategies should be country-driven and be developed transparently with the participation of civil society, key donors, and regional development banks. These strategies should be clearly linked with the agreed international development goals, with measurable indicators to monitor progress. They will provide the basis for all IDA and IMF lending to low-income countries and so will ensure the close integration of the institutions' work in these areas. We also encouraged regional development banks and donors to use the Strategies to guide their support.

We reaffirmed the importance of implementing the enhanced HIPC Initiative in accordance with the principles that have guided the initiative since its inception, including additionality of debt relief, maintaining the financial integrity of multilateral financial institutions, and equitable cost sharing. We agreed that financing of debt relief should not compromise the financing made available through concessional windows, such as IDA.

We expressed appreciation for the many contributions to the HIPC Initiative made thus far and for the efforts of multilateral development institutions to provide funding from their own resources. We also welcomed the agreement by the Paris Club to increase its debt relief under the enhanced framework by providing increased debt reduction in net-present-value terms of up to 90 percent, or more if needed, on commercial loans as well as additional relief on official development assistance claims—up to full cancellation—on a bilateral basis.

Ministers recognized that there will need to be additional bilateral support in order to meet the financing requirements of the enhanced initiative. These financing arrangements will need to be considered at the forthcoming Development and Interim Committee meetings. Based on the expressions of goodwill and support that we have heard, we are confident that the political will and commitment are there to allow the enhanced HIPC Initiative to start after these meetings so that eligible countries can receive enhanced debt relief within the new framework.

We urge the speedy implementation of the enhanced initiative so that as many countries as possible would qualify for assistance under the initiative by end-2000. ■

Interim Committee press conference

Brown, Camdessus hail cooperative agreement on speedy implementation of debt initiative

Following are edited excerpts from the joint press conference given by Gordon Brown, Chair of the Interim Committee, and Michel Camdessus, IMF Managing Director, on September 26 in Washington, D.C. The full text of the press conference is available on the IMF's website (www.imf.org).

BROWN: I would like to take you through both the joint meeting of the Interim and Development Committees this morning and the Interim Committee meeting that has just finished. I believe that the joint committee meeting we had symbolized the cooperation and commitment of all countries and institutions to the enhanced debt-relief initiative, which will provide faster, deeper, and broader debt relief, with the central goal of reducing poverty in the world's poorest countries.

As noted in our communiqué [see page 317], we discussed global economic and financial conditions, and we welcomed the marked improvement since the beginning of the year. Among the major industrial countries, a sustained pickup in Europe and Japan will help to achieve a more balanced pattern of growth. We emphasized the importance of open and competitive markets as a key component of efforts to sustain growth and stability in the global economy. We believe the launch of the new trade negotiations in Seattle later this year is an opportunity to make further progress in this direction. Indeed, we encouraged the IMF to work with the World Bank and the World Trade Organization to strengthen the programs of work to achieve better global policymaking.

We have adopted, as part of our reforms of the international financial architecture, the new Code on Monetary and Financial Policies, and we are urging all members to implement this code as well as the previously agreed code on fiscal transparency. We have discussed the efforts to involve the private sector in crisis resolution and we welcomed the progress achieved in securing the involvement of the private sector in individual cases; we are going to continue to do further work to see if agreed principles can be found. As part of the changes in the financial architecture, the Interim Committee has been put on a permanent basis and will now be called the International Monetary and Financial Committee.

The joint meeting this morning made progress in three very important areas: first, moving forward on the reforms to deliver faster, deeper, and wider debt relief; second, strengthening the focus on poverty reduction; and third, making progress in the financing arrangements that will allow the enhanced Heavily Indebted Poor Countries (HIPC) Initiative to start after these Annual Meetings without having to wait months or years.

I am grateful, as was the whole committee, for the work of Michel Camdessus and James Wolfensohn in making possible this progress. We endorsed the enhancement to the HIPC Initiative for those countries committed to change. We stressed the need to ensure that debt relief will result in poverty reduction. We endorsed the new framework for antipoverty and growth strategies that has been proposed by the Bank and the IMF. We believe that much progress will now be made in the cooperative effort to achieve growth-related poverty-reduction programs for the poorest countries. We stressed the need to put in place macroeconomic, structural, and social policies that will generate growth and contribute to long-term poverty reduction.

On the financing of the HIPC Initiative, and now the enhanced HIPC Initiative, the Interim Committee has endorsed the decision of the IMF for off-market transactions of up to 14 million ounces of gold to allow the IMF to fund its contribution to the enhanced framework. We have urged the speedy implementation of the enhanced initiative, so that as many countries as possible would qualify for assistance by the year 2000. The Interim Committee and the Development Committee have also heard of the work being done to fund the African Development Bank, the Inter-American Development Bank, and, of course, the World Bank itself in meeting its commitments to the HIPC Initiative.

We learned that additional sums of money have been deposited into the World Bank HIPC Trust Fund by member countries, which is in addition to announcements made by the United States, Germany, and the European Development Fund over the past few days. We now have a credible initiative that can begin producing debt relief for the countries that need it—now, and not in years or months.

At this historic meeting, those to whom the world's greatest wealth has been given have joined with those burdened by the world's greatest debt and destitution to form a new and worldwide alliance against poverty, so that in the new century all peoples in all countries will have a chance to build a better future. Not only have we made significant progress today, but we have taken decisive action that will enable the debt relief we have proposed over the past year to be financed and to happen.

QUESTION: *What is the size of the shortfall of pledges to the Trust Fund for the full implementation of the enhanced HIPC for the first 12 months and beyond?*

BROWN: As you know, the IMF has made proposals, which were accepted by the Interim Committee, about how it plans to finance its part of the debt initiative. We heard from Mr. Wolfensohn this morning about how the World Bank plans to finance this debt relief and how he wants to enhance the HIPC Trust Fund so that it can help not just the World Bank but the African Development Bank and other development banks.

At the Interim Committee press conference, Gordon Brown (left) confers with Michel Camdessus.

Before last week, $550 million had been pledged to the HIPC Trust Fund. As a result of decisions made by many countries over the past week, the funding of the Trust Fund is now rising toward $2.5 billion. In addition to the $171 million it has already contributed, the United Kingdom announced today that it would contribute an additional $50 million. Other countries have made further announcements. So, the situation has moved considerably from where it was last week. The key question is, Can the debt relief start under the enhanced initiative for those countries that are ready and need it now? The answer is yes, that can happen.

CAMDESSUS: I would like to call your attention to the referendum we had on our efforts to introduce the fight against poverty into our programs. We asked our 182 members—the big majority of them developing countries—to contribute to HIPC and to make permanent the new instrument that will be the successor to the Enhanced Structural Adjustment Facility. The results of the referendum are the following: more that 90 countries have agreed to contribute amounts in proportion to their quota shares in the IMF capital base. Among these countries, 54 are developing countries and 10 are transition economies. Among them are countries that have been supported by ESAF programs or are currently under programs of this kind and believe that these programs have done so much good for them that they have pledged some of their own money to allow other countries to benefit from the same support.

QUESTION: *What progress has been made in involving the private sector in crisis resolution in individual cases?*

BROWN: We will look at several instances of private sector involvement in crisis resolution and see if there are general rules that can be applied in the future. I think the debate has moved over the past year from ad hoc responses that individual countries and institutions had to make to situations in individual countries to a recognition that although there is no one-size-fits-all approach, we can have a more orderly process based on general principles and a general framework that people will accept.

CAMDESSUS: I totally agree with the Chairman. We are gaining experience daily in this domain, and we will try to extract principles from this experience and define instruments for action. We expect to have taken further steps by the time of the April meetings.

QUESTION: *You mentioned the U.K. contribution that had been announced today. Could you walk us through other contributions that have come in, say, in the past 24 hours?*

BROWN: I am not in a position to make announcements for individual countries. Cumulatively, if these pledges are met, this is how the figure adds up. These are significant sums of additional money—money that had not been pledged before. In some cases, this is money that is now being brought forward as a result of our looking at what needs to be done and as a result of people being prepared to play their part.

I can also say it is not just one or two countries; it is many countries that have decided that this is the opportunity to make a decisive break with the past, to move the HIPC Initiative forward to a new enhanced initiative and to release the funds that are necessary for the multilateral institutions to play their part.

I would emphasize Michel Camdessus's point. What we are talking about today is how we can build a virtuous circle of relief, poverty reduction, and economic development. The new proposals from both the IMF and the Bank to work together on the antipoverty and growth strategies are an important part of this process. I think people will look back at this meeting and see not only the historic decisions on debt relief as we approach the millennium but also the decisions to set up these new initiatives—the antipoverty and growth programs—as marking a very important step forward, which will mean improvement and hope in countries hit by unfavorable economic circumstances and hit by poverty.

IMF SURVEY

Ministers welcome measures to reduce poverty, call for reforms to sustain global recovery

Following is the text of the communiqué issued after the September 26 meeting of the Interim Committee of the Board of Governors of the IMF.

The Interim Committee held its fifty-third meeting in Washington, D.C., on September 26, under the Chairmanship of Gordon Brown, Chancellor of the Exchequer of the United Kingdom. The Committee expresses its appreciation to the outgoing Chairman, Carlo Azeglio Ciampi, formerly Minister of the Treasury of Italy and currently President of Italy, for his invaluable contribution to the Committee's work.

Global economic and financial conditions

The Committee welcomes the improvement in global economic and financial conditions since the beginning of this year. It has reviewed the challenges required to ensure that the recovery is sustained.

In many emerging market economies and developing countries, raising growth rates on a lasting basis will require not only sustained growth in industrial countries but also key structural reforms. These include banking reform, corporate restructuring, tax reform and tax administration, establishment of effective legal systems, protection of property rights, and improved governance.

• Recovery is taking hold in crisis-affected countries in Asia, aided by supportive fiscal policies, accommodative monetary policies, and a return of financial market confidence. Financial sector restructuring is generally moving ahead, but further efforts are needed to complete the task. In addition, corporate restructuring and institutional reforms should be accelerated. Indonesia's recovery has been interrupted by structural and political problems that will need to be resolved speedily in order for economic recovery and reform to resume. China and India have weathered the crisis relatively well and economic performance has been sustained, but significant challenges in some areas remain to be addressed.

• In Russia, the Committee welcomes the efforts of the IMF to work with the Russian authorities to encourage macroeconomic stabilization, the continuation of reforms, and the further integration of Russia into the global economy. While acknowledging the recent initial measures to restructure the banking system, strengthen the integrity of financial policies and institutions, and improve governance and transparency, the Committee stresses the urgent need for further progress. It calls on the IMF to work with the Russian authorities to strengthen reforms in these and other areas that are important for economic growth.

• In Brazil, strict implementation of the IMF-supported program has restored confidence, and the outlook for some other countries in Latin America has also improved. In many other countries in this region, adjustment and reform efforts still require further strengthening.

• In the Middle East and Africa, countries that have benefited from the improvement in commodity prices, particularly for oil, have a renewed opportunity to accelerate progress on fiscal consolidation and diversification of their economies.

• Heavily indebted sub-Saharan African countries should take full and prompt advantage of the opportunity offered by debt relief under the enhanced Heavily Indebted Poor Countries (HIPC) Initiative to intensify and press ahead with reforms, including allocating additional

IMF Board of Governors approves transformation of Interim Committee

On September 30, the IMF announced that the IMF Board of Governors had approved the IMF Executive Board's proposal to transform the Interim Committee. The text of Press Release No. 99/47, which is also available on the IMF's website (www.imf.org), follows.

The IMF Board of Governors adopted a Resolution approving a proposal of the Executive Board to transform the Interim Committee of the Board of Governors on the International Monetary System into the International Monetary and Financial Committee of the Board of Governors.

In addition to the name change, which adds "and financial" as part of the Committee's terms of reference, there is now an explicit provision for preparatory meetings of representatives of the Committee members (deputies). The new Committee will continue to advise and report to the Board of Governors with respect to the functions of the Board of Governors in

• supervising the management and adaptation of the international monetary and financial system, including the continuing operation of the adjustment process, and in this connection reviewing developments in global liquidity and the transfer of real resources to developing countries;

• considering proposals by the Executive Board to amend the Articles of Agreement; and

• dealing with sudden disturbances that might threaten the system.

In addition, the Committee shall advise and report to the Board of Governors on any other matters on which the Board of Governors may seek the advice of the Committee.

The members of the International Monetary and Financial Committee are Governors of the IMF, ministers, or others of comparable rank, reflecting the composition of the Executive Board: each country that appoints, and each group that elects, an Executive Director appoints a member of the Committee. The Chairman of the Committee is Gordon Brown, Chancellor of the Exchequer of the United Kingdom.

resources for, and improving the efficiency of, spending aimed at poverty reduction. Outward-oriented strategies and peaceful resolution of armed conflicts are critical for sustaining economic development and higher growth.

• The tragic events that took place in Kosovo this year have had severe negative economic effects on other countries in the region. Coherent stabilization and reform policies supported by the international financial institutions are important for further economic development in the region. Therefore, the Committee calls upon the IMF to continue its strengthened support in the form of programs and technical assistance to the countries involved.

At the Interim Committee, Japanese Minister of Finance Kiichi Miyazawa (left) meets with Italy's Minister of the Treasury, Budget, and Economic Planning, Giuliano Amato.

A sustained pickup in domestic demand in Europe and Japan, together with medium-term growth in the United States in line with potential, will help to achieve a more balanced pattern of growth among the major industrial countries.

• The Committee welcomes the continued strong performance of the U.S. economy that has been critical in supporting global activity. Policies should continue to be directed to sustaining growth on a long-term basis by maintaining a strong fiscal position and increasing national saving.

• The Committee welcomes the growth of the Japanese economy in the first two quarters of 1999, which was supported by a rebound in consumer demand. Given that the prospect for continuing recovery in private demand remains uncertain, however, it urges the authorities to maintain a supportive stance of fiscal and monetary policies through a supplementary budget of appropriate size while, in the context of their zero interest rate policy, providing ample liquidity until deflationary concerns are dispelled. It is also critical to continue efforts to strengthen the banking system and foster corporate restructuring in order to achieve sustained growth in Japan, which should facilitate needed medium-term fiscal consolidation.

• The Committee is also encouraged by the pickup in growth in Europe in the context of price stability. While monetary conditions in the euro area are accommodative and should remain supportive, further efforts toward fiscal consolidation and structural reform, especially regarding the tax system and the labor and product markets, would improve prospects for sustained growth and a further reduction in unemployment.

The Committee emphasizes the importance of open and competitive markets as a key component of efforts to sustain growth and stability in the global economy. The proposed launch of new trade negotiations in Seattle later this year is an important opportunity to make further progress in this direction. Further broad-based liberalization in a strengthened rules-based multilateral trading system will help underpin global growth and stability. To ensure that the benefits of liberalized trade and investment are fully realized and shared, the Committee encourages the IMF to work with the World Bank and the World Trade Organization (WTO) to strengthen their programs of work to achieve better coherence in global policymaking. It recognizes that coordinated programs of support for developing countries, including targeted technical assistance and policy advice, will support them in meeting WTO commitments and implementing current agreements.

The Committee notes that, in fostering economic growth through appropriate macroeconomic policies and structural reforms, the IMF, in close cooperation with the World Bank, and consistent with their mandates, must also take into account the direct social consequences of adjustment and reform efforts as well as the complementarity of macroeconomic and social policies for long-term growth and improved social indicators.

Poverty-reduction initiatives

The Committee endorses the proposed replacement of the Enhanced Structural Adjustment Facility (ESAF) by the new Poverty Reduction and Growth Facility, which aims at making poverty-reduction efforts among low-income members a key and more explicit element of a renewed growth-oriented economic strategy. The cornerstones of the new approach, which should continue to be based on sound macroeconomic policies, are as follows:

• A comprehensive Poverty Reduction Strategy Paper (PRSP) will be prepared by each country, with assistance from the World Bank and the IMF, and with strong country ownership based on public partnership, to guide the design of programs; the PRSP will need the approval of both Bank and IMF Boards.

• Social and sectoral programs aimed at poverty reduction will be taken fully into account in the design of economic policies for promoting faster sustainable growth.

• Greater emphasis will be accorded to good governance, in particular in all government activities, through greater transparency, effective monitoring procedures, anticorruption initiatives, accountability, and the involvement of all sectors of society.

• High priority will be accorded to key reform measures critical to achieving governments' social goals.

The Committee takes note of the crucial role to be played by the World Bank and other relevant international organizations in helping governments develop and monitor the implementation of their poverty-reduction strategies. It endorses the proposal that PRSPs, as they are developed, provide the basis for all International Development Association (IDA) and Poverty Reduction and Growth Facility lending operations and closer Bank-IMF collaboration.

The Committee welcomes the joint meeting of the Interim and Development Committees, held earlier

today, on the enhanced HIPC Initiative. The proposals made by the Bank and the IMF to this end, which build upon wide-ranging comments from civil society and the international community, are aimed at providing faster, deeper, and broader debt relief and strengthening the link between debt relief and poverty reduction.

The Committee welcomes the agreement on the financing of the IMF's participation in the HIPC Initiative and continued concessional lending by the IMF for growth and poverty reduction in its low-income member countries. It highly appreciates the financial support provided by a wide cross section of the IMF's membership through bilateral contributions and endorses the decision adopted by the Executive Board for the IMF's participation. The Committee considers that the off-market transactions of up to 14 million fine ounces of gold by the IMF that are envisaged will be a onetime operation of a highly exceptional nature. This is part of a broader financing package to allow the IMF to contribute to the resolution of the debt problems of the HIPCs at the turn of the millennium and to the continuation of concessional operations to support countries' efforts to achieve sustained growth and poverty reduction. The Committee endorses the Executive Board's recommendation that the Board of Governors adopt a Resolution to this effect.

Architecture

The Committee welcomes the progressive translation of broad principles into concrete actions in developing and monitoring standards of importance to the international monetary and financial system.

• The Committee encourages the IMF to continue its collaborative efforts with the World Bank and other relevant organizations to complete work on the Financial Stability Forum's compendium of standards.

• The Committee urges all 47 Special Data Dissemination Standard (SDDS) subscribers to continue to enhance their statistical practices and to report data on international reserves and related liabilities according to the agreed reserves template by March 2000. It encourages further work by the IMF on the SDDS, including on strengthening external debt data and developing macroprudential indicators. It looks forward to the launch of the operational phase of the General Data Dissemination System (GDDS) early next year. The Committee also urges the IMF and member countries to press ahead with efforts to improve the timeliness and comprehensiveness of data on capital flows. The IMF should provide technical assistance to enhance the quality and timeliness of data. Country authorities and relevant international organizations should also take urgent action to improve data on social spending and social indicators.

• The Committee adopts the Code of Good Practices on Transparency in Monetary and Financial Policies: Declaration of Principles as a guide for members to increase transparency in the conduct of these policies. [The full text is available on the IMF's website: www.imf.org.] The Committee urges all members to implement the new code as well as the previously agreed Code of Good Practices on Fiscal Transparency.

• The Committee welcomes the assessments of the implementation of the Basel Core Principles that have been made in the course of IMF surveillance and technical assistance and urges that these be embedded into regular surveillance activities. It notes the work under way by the Basel Committee on Banking Supervision to review the 1988 Capital Accord and urges the Basel Committee to complete that review. It encourages the IMF to continue to support this process.

The Committee encourages the IMF, in cooperation with other standard-setting bodies, to continue to experiment with assessments of members' observance of international standards and codes of good practice and invites the Executive Board to consider whether to integrate such assessments into the surveillance process.

The Committee reiterates the importance of greater transparency in policymaking. With respect to IMF practices and members' policies, it strongly welcomes the steps taken:

• the widespread release of Public Information Notices (PINs), for which there is an agreement on presumption of publication; the public release of many IMF policy papers and the associated summaries of Board discussions; and the release of the external evaluators' reports on IMF surveillance and economic research activities;

• the decisions of 46 countries that have already volunteered to participate in the pilot program for the release of Article IV reports, with 15 reports already available on the IMF's website;

• the agreement to establish a presumption in favor of publication of Letters of Intent, Memorandums of Economic and Financial Policies, and Policy Framework Papers, and the widespread release of documents that has occurred since the policy of greater transparency was adopted; and

• the efforts to ascertain the views of the private sector on the experimental transparency reports.

The Committee encourages further actions to make IMF practices and members' policies more transparent without compromising the IMF's role as confidential advisor.

Experience in a few cases has highlighted the importance of promoting transparency and accountability, especially when IMF resources are being used. In this connection, the Committee notes that the implications

Before the Interim Committee meeting, U.S. Secretary of the Treasury Lawrence Summers talks with U.S. Senior Deputy Assistant Secretary Caroline Atkinson (left) and U.S. Executive Director at the World Bank Jan Piercy.

of corruption and money laundering raise important issues for the credibility and effectiveness of IMF programs and calls on the IMF to perform an authoritative review of its procedures and controls to identify ways to strengthen safeguards on the use of its funds and to report at its next meeting. The Committee considers that further actions for strengthening governance at the national and international levels are crucial. In the financial area, governments must maintain strong internal financial controls and tighten supervision and regulation of domestic financial institutions and offshore banking centers, including measures to deter money laundering. The Committee urges the IMF to enhance its support for members' efforts in these areas, building on its guidelines and other international standards for fostering good governance and transparency in all member countries, including through the application of the codes of good practice that the membership has established in the fiscal and monetary areas.

The Committee welcomes the progress made in financial sector reform and banking system restructuring in the context of IMF surveillance, technical assistance, and programs. It looks forward to the continued collaborative work of the IMF, the World Bank, and other institutions, including on the pilot Financial Sector Assessment Program that should facilitate early detection of financial system weaknesses and support a better coordinated dialogue with national authorities. The Committee encourages countries that have not done so to participate in the pilot program.

The Committee welcomes the recent independent, external evaluations of IMF surveillance and research activities and encourages the Executive Board to further examine the recommendations of the former in the context of the next internal review in late 1999. The Committee also reaffirms the importance of independent evaluations of the IMF's operations and policies.

The Committee reiterates the importance of ongoing efforts to involve the private sector in forestalling and resolving financial crises and notes the progress achieved in securing the involvement of the private sector in individual cases. In this connection, the Committee considers that the balance of the various considerations reflected in the report by Group of Seven finance ministers to the Cologne economic summit provides a helpful framework within which the international community can work to address individual cases that may arise. The Committee asks the Executive Board to build on this framework and to report at the Committee's next meeting on the ways in which the broad principles have been implemented.

The Committee considers that increased mobility of capital has raised the requirements, in terms of both policy adaptability and institutional preparedness, for maintaining a fixed exchange rate regime. That said, members should be able to choose a regime that is appropriate to their particular circumstances and longer-term strategy. The choice of exchange rate regime and the implementation of supporting policies are critical for countries' economic development and financial stability and, in some cases, potentially for the world economy. In all cases, IMF programs and surveillance should further focus on consistency of macroeconomic and other policies and institutional arrangements with the chosen exchange rate regime. The IMF should assist members to adapt to a world of global financial flows. The Committee encourages the Executive Board to continue to consider these matters and to report to the Committee on its work.

Persistent and sizable capital inflows can be highly destabilizing, particularly if they are intermediated by poorly regulated and unsupervised financial institutions. In this context, the Committee welcomes the IMF's recent work on the appropriate pace and sequencing of capital account opening, which has led to a fuller understanding of the conditions for orderly and sustainable liberalization and has broadly confirmed earlier conclusions that, over the long term, open capital flows accompanied by appropriate prudential measures will benefit the world economy. The Committee encourages the IMF to build on its examination of individual countries' use and liberalization of controls, paying particular attention to the relationship between capital account liberalization and financial sector stability.

The Committee calls on the IMF and the World Bank to work together, in cooperation with national debt-management experts, to develop a set of best practices in public debt management by the spring to assist countries in their efforts to reduce vulnerability.

The Committee encourages all members to continue to work on preventive action and to put in place millennium contingency plans, noting that, although business, financial institutions, and government agencies around the world have made considerable progress in preparing computer systems, a risk remains that Y2K problems will be anticipated or will arise, with potential negative consequences for growth, international trade, and international capital flows. To help forestall, and if necessary resolve, possible balance of payments problems related to the Y2K phenomenon, the Committee endorses the Executive Board's decision to introduce a temporary new facility for providing outright short-term access to IMF resources to members facing identifiable Y2K-related balance of payments needs.

The Committee endorses the Executive Board's recommendation that the Board of Governors adopt a Resolution transforming the Interim Committee into the International Monetary and Financial Committee and strengthening its role as the advisory committee of the Board of Governors.

The next meeting of the Committee will be held in Washington, D.C., on April 16, 2000.

IMF SURVEY

Ministers welcome prospects for recovery, note that a number of challenges remain

Following are edited excerpts of the statement issued by the Group of Seven finance ministers and central bank governors on September 25 in Washington, D.C. The full text is available on www.treas.gov/press/releases/ps120.htm.

Finance ministers Dominique Strauss-Kahn (France) (left), Hans Eichel (Germany), Gordon Brown (United Kingdom), Lawrence Summers (United States), Giuliano Amato (Italy), Kiichi Miyazawa (Japan), and Paul Martin (Canada) gather before the Group of Seven meeting.

Developments in the world economy

We welcomed the improvement in prospects for recovery in the major industrial economies and the world economy as a whole. At the same time, we noted that we still face a number of challenges in fostering a strong and sustained world recovery with financial stability to promote improved living standards.

The improved global economic outlook has been characterized by the beginnings of a foundation for balanced and widely shared growth in the major industrial countries; a solidifying recovery in emerging markets in Asia; signs of stability and even incipient recovery in some of the other emerging markets that have come under pressure; more differentiation in financial markets about risk in emerging market economies, with some resumption of financing flows; and an environment of low inflation. In general, the balance of risks in emerging market economies suggests a continuing need to focus on reform to promote the basis for lasting growth.

Group of Seven economies

We reaffirmed the importance of progress in achieving a more balanced pattern of growth among the Group of Seven economies.

We pledged to continue to work cooperatively to improve the international economic outlook and to strengthen financial stability.

• In the United States and Canada, prospects are favorable for another year of solid growth and job creation in a low-inflation environment. Policies will be directed to sustaining growth on a long-term basis by maintaining improved fiscal conditions and, in the United States, increasing national saving.

• Growth in the United Kingdom has strengthened during this year. Economic policies will continue to aim at sustaining growth and employment while meeting the government's inflation target and fiscal rules.

• Overall prospects in the euro area have improved significantly, with stronger domestic demand. An appropriate mix of macroeconomic and structural policies aimed at strengthening growth and employment over the medium term will continue to be important.

• Japan's economy has shown signs of positive growth, although prospects for continued recovery in private demand remain uncertain. In these circumstances, and in view of the yen's appreciation, the Japanese authorities reiterated their intention to implement stimulus measures until domestic-demand-led growth is solidly in place and, in the context of their zero interest rate policy, to provide ample liquidity until deflationary concerns are dispelled. Banking system strengthening measures, including bad-asset disposal, and structural reforms will continue to be important.

International monetary system and exchange rates

We discussed developments in our exchange and financial markets. We shared Japan's concern about the potential impact of the yen's appreciation for the Japanese economy and the world economy. We welcomed indications by the Japanese authorities that policies would be conducted appropriately in view of this potential impact. We will continue to monitor developments in exchange markets and cooperate as appropriate.

Emerging market economies

We discussed financial and economic developments in emerging markets. We welcomed the return of more stable conditions in many countries and early signs of renewed economic growth in many Asian nations. Along with appropriate macroeconomic policies, we stressed the importance of full implementation of reforms in the financial and corporate sectors to promote a resumption of strong sustainable growth. In Latin America, growth is expected to resume across the region next year, as the financial turbulence of the past year has receded and commodity prices have increased. However, a number of countries need to support a resumption of growth and low inflation through sound macroeconomic policies and a deepening of economic reforms, including strengthening of the financial sector, which will be crucial in supporting the external financing environment.

Debt reduction and poverty reduction

At the Cologne summit in June, our leaders agreed on a framework to enhance the Heavily Indebted Poor Countries (HIPC) Initiative, which would provide

• faster, deeper, and broader debt relief;

• for the international financial institutions to help make it possible for three-fourths of eligible countries to reach their decision points by 2000 and for the remaining countries to embark on the HIPC process as soon as possible; and

• a strengthened link between debt relief and poverty reduction.

As a key part of this framework, we emphasized the importance of a new, coordinated approach by the World Bank and the IMF to support, consistent with their mandates, a growth-oriented strategy aimed at reducing poverty and stressed the importance of its effective implementation. In that context, we welcome tomorrow's joint session of the Interim and Development Committees to discuss HIPC. We also welcomed the [IMF] Managing Director's intention to announce a successor arrangement to the Enhanced Structural Adjustment Facility (ESAF), to be called the Poverty Reduction and Growth Facility. The new integrated strategy should promote good governance and be based on five pillars:

• increased and more effective fiscal expenditures for poverty reduction, with better targeting of budgetary resources, especially on social priorities in basic education and health, including the prevention and treatment of AIDS and measures to improve child survival;

• enhanced transparency, including monitoring and quality control over fiscal expenditures;

• stronger country ownership of the reform and poverty-reduction process and programs, involving public participation;

• stronger monitorable performance indicators for follow-through on poverty reduction; and

• ensuring macroeconomic stability and sustainability and reducing barriers to access by the poor to the benefits of growth.

The IMF has identified ways to cover its costs from its own resources without impairing its financial integrity. We look forward to the Interim Committee settling this issue at its meeting tomorrow. In relation to the World Bank and International Development Association, we welcomed progress toward a solution that would enable the Bank, using the resources available to it, to finance substantially all of the costs of its participation in the expanded HIPC Initiative without compromising its ability to deliver concessional resources, and we look forward to the resolution of this issue in the Development Committee. Taking this into account, we reaffirmed our commitment going forward to ensuring an adequate supply of multilateral concessional resources for the poorest countries. We have also agreed to consider in good faith bilateral contributions, based on appropriate burden sharing as agreed in Cologne, to an expanded HIPC Trust Fund to meet the costs falling to the multilateral development banks, in particular the African Development Bank and the Inter-American Development Bank. We and other bilateral creditors have borne and will continue to bear the greatest part of the cost of the HIPC Initiative by forgiving 100 percent of official development assistance debt and up to 90 percent, and more if necessary, of commercial debt in the Paris Club. We repeat our call for all other creditor countries to forgive bilaterally, based on a menu of options, all official development assistance debt and urge all bilateral creditors to make future official development assistance to HIPCs primarily in the form of grants to help ensure that they do not face debt problems in the future.

On this basis, we urge the international financial institutions, bilateral creditors, and donors to implement the Cologne framework quickly. The next eligible countries to come forward for HIPC relief will be treated under this framework, which will also be applied retroactively to those that have already received HIPC relief. ■

Available on the web (www.imf.org)

News Briefs

99/59: Camdessus Welcomes Thai Decision to Sustain Reform Efforts Without Further IMF Financing, September 22
99/60: IMF and Colombia Reach Understandings on Economic Program, September 24
99/61: IMF Urges Collaboration Between Ecuador and Its Creditors, September 27
99/62: Financing the HIPC and ESAF Initiatives, September 27
99/63: IMF to Consider Early Assistance for East Timor, in Collaboration with World Bank, United Nations, September 29
99/64: Ecuador Signs Letter of Intent with IMF, September 30
99/65: Joint Statement by the Government of the Philippines and IMF Mission, October 1
99/66: IMF Plans Technical Discussions in Indonesia with Major Parties and Economic Institutions, October 4
99/67: IMF Executive Board Completes Thai Review, October 5
99/68: IMF Approves 10.66 million SDR Outlay to Jordan, October 5

Public Information Notices (PINs)

99/92: Haiti, September 24
99/93: Nicaragua, September 27

Letters of Intent and Memorandums of Economic and Financial Policies

Burkina Faso, August 2
Guinea-Bissau, August 13

Policy Framework Papers

Burkina Faso, August 2

Notes: PINS are IMF Executive Board assessments of members' economic prospects and policies. They are issued following Article IV consultations—with the consent of the member—with background on the members' economies, and following policy discussions in the Executive Board at the decision of the Board.

Letters of Intent and Memorandums of Economic and Financial Policies are prepared by a member country and describe the policies that the country intends to implement in the context of its request for financial support from the IMF.

Policy Framework Papers are prepared by the member country in collaboration with the staffs of the IMF and the World Bank. These documents, which are updated annually, describe the authorities' economic objectives and macroeconomic and structural policies for three-year adjustment programs supported by Enhanced Structural Adjustment Facility resources.

Representatives of developing countries call for comprehensive approach to debt issues

Following are edited excerpts of the communiqué issued by the ministers of the Intergovernmental Group of 24 on International Monetary Affairs (the Group of 24) in Washington, D.C., on September 25. The full text of the communiqué is available on the IMF's website: www.imf.org.

World economic outlook

Global economic prospects and financial markets have improved in the past few months, largely allaying the earlier fears of a worldwide economic recession and a financial meltdown. However, the recovery in the developing world is still quite fragile, and a number of risks and uncertainties continue to pose challenges for policymakers.

A major concern arises from the unbalanced growth pattern among major industrial countries. The persistence of macroeconomic imbalances generates the potential risk of sharp corrections in asset markets, especially in the U.S. equity market and in foreign exchange markets worldwide. Despite some stabilization in international financial markets, net capital flows to developing countries and transition economies have not yet recovered from the very low level reached in 1998. Moreover, the distribution of flows remains uneven, and interest rate spreads are still very large. Oil prices remain volatile, while nonfuel commodity prices remain depressed, and an early improvement in developing countries' terms of trade appears unlikely. Increasing protectionist tendencies in industrial countries, particularly nontariff barriers, aggravate difficulties for developing country exports. Despite the various initiatives currently in place to address the problems of the heavily indebted poor countries, comprehensive relief is yet to be achieved. Furthermore, adverse reactions to actual or perceived Y2K compliance problems create an additional risk factor in the lead-up to the year 2000.

In noting the adjustment efforts undertaken by developing countries, ministers consider that the uncertainty surrounding the sustainability of global growth requires a parallel effort on the part of industrial countries, particularly by strengthening macroeconomic policy coordination. They are of the view that enhanced policy coordination is crucial to contain sharp fluctuations in exchange rates among the major international currencies, which create severe difficulties for developing countries. Ministers stress that a significant lowering of selective tariff and nontariff barriers in industrial countries is imperative to help developing economies integrate into the global economy and achieve satisfactory growth rates.

Involving the private sector

Ministers recognize that the role of private capital flows will continue to expand in an increasingly integrated global economy. Therefore, it is difficult to visualize the prevention or resolution of financial crises without direct and timely private sector involvement. In this regard, the major challenge for the international community is to develop a market-friendly strategy for involving the private sector in a manner that does not disrupt or unduly raise the cost of capital flows to developing countries. Ministers suggest that any strategy should minimize spillover effects on other borrowers. They encourage further progress toward voluntary arrangements for private sector participation before crises arise, such as through contingent credit lines, embedded call options, and debt-service insurance. Other provisions are also needed to cover both crisis prevention and resolution, including bankruptcy procedures, the establishment of creditor-debtor councils, and in extreme cases the possibility of a standstill of debt repayments. In addition, ministers stress the importance of symmetrical disclosure of relevant information between the private and public sectors.

Chandrika Bandaranaika Kumaratunga, President of Sri Lanka, takes her seat to chair the Group of 24 meeting.

Ministers consider that the current piecemeal approach being discussed in international forums needs to be integrated into a comprehensive and structured framework, which should have sufficient operational

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flexibility. In this regard, the design of the framework could benefit from the case-by-case experiments currently under way. Such a framework must evolve on the basis of a broader participation of the international community, especially developing countries, and should be implemented on a voluntary basis. Pending the establishment of the framework, the principles under consideration should not be applied retroactively.

At the Group of 24 meeting, Finance Minister of Gabon, Emile Doumba (right), consults with his Financial Advisor, Michael Adande.

Ministers stress that, while the IMF has an important role to play in the evolution of this framework, its role should be that of a facilitator, rather than an arbiter enforcing particular modes of handling the relations of sovereign debtors with their creditors.

Ministers note that some industrial countries have indicated their willingness to incorporate majority restructuring and majority-enforcement provisions in bond issues in their markets, and they encourage other industrial countries to follow this lead while reiterating their concern about the possible adverse impact on interest rate spreads of developing countries' bonds.

While welcoming the idea of creating creditors' committees, ministers support the suggestion to define general principles and operational procedures rather than attempting to establish a standing body for negotiations with sovereign debtors for all creditors.

Surveillance and standards

Ministers welcome the increased emphasis being placed on IMF surveillance of capital account and financial sector issues, vulnerability analysis, cross-country comparisons, and international aspects of a country's macroeconomic policies, especially with respect to the largest industrial economies. They also appreciate the progress made in the direction of greater transparency of IMF operations, while reiterating the importance of maintaining the IMF's role as confidential and trusted advisor. Ministers encourage the continuation of the external evaluation process, which is making significant contributions to the improvement of various aspects of the IMF's activities. The increased attention given to standards of transparency and disclosure is acceptable as part of IMF surveillance as long as it remains within the core competencies of the IMF and subscription to international standards remains voluntary. Assessments made on countries' practices in these areas, however, should take fully into account their institutional capacities and stage of development, so as not to place developing countries at a comparative disadvantage in their efforts in developing their financial systems. Appropriate additional technical assistance should be provided to help developing countries prepare for the implementation of international standards. Ministers stress that adherence to international standards should not be used in determining IMF conditionality.

Ministers note the ongoing work on a new capital adequacy framework aimed at strengthening the soundness of the global banking system. They caution against such a framework resulting in more stringent conditions and impeding access for developing countries to international capital markets. The role of credit-rating agencies in the risk-weight-setting process should be examined with caution.

Conditionality

Ministers express concern about the intrusiveness into sociopolitical matters—stretching beyond the mandate of the Bretton Woods institutions—as reflected in the increasing tendency to extend conditionality to issues of governance and social policy. New layers of conditionality are being added with respect to private sector involvement in crisis resolution that are likely to raise the costs of access to markets, if not prevent access altogether. Ministers express their strong reservation to applying Enhanced Structural Adjustment Facility (ESAF) and International Development Association (IDA) conditionality to the regular operations of the Bretton Woods institutions.

Exchange rate regimes

Ministers note that the volatility between the three major currencies poses risks not merely to their respective economies but more so to others—particularly developing countries. Therefore, they call for stronger international policy coordination to reduce such volatility and for closer surveillance of the major industrial countries, including on the international implications of their domestic policies.

Ministers reiterate the right of members, as recognized in the IMF's Articles of Agreement, to choose their own exchange rate regime. They are of the view that there is no single regime that is most appropriate for all countries. Ministers stress that the IMF's financial support should not be based on the choice of any particular exchange rate regime.

Capital account liberalization

In light of the recent financial crises, ministers consider that the coordination of various elements in the process toward capital account liberalization is of critical importance to minimize potential risks. These elements include a consistent macroeconomic policy framework, a sound and well-regulated domestic financial sector, and an appropriate contingency mechanism to deal with potential threats to the sustainability of open capital account regimes. As the applicability of the recently introduced Contingent Credit Lines (CCL) appears limited, ministers call for a reexamination of all possible options, including the evolution of a global lender of last resort. Further analysis of the use and effectiveness of specific controls is needed, particularly in relation to the operation of derivatives markets and their impact on the effectiveness of financial regulation and supervision.

SDR allocation

Ministers consider that the SDR instrument should be more readily used to supplement members' reserves at times of liquidity uncertainties. The present circumstances, in which developing countries are faced with a sharp contraction in capital flows and very high interest rate spreads, justify in our view a sizable general SDR allocation. Such a strengthening of members' reserves would also give more confidence to members seeking a greater integration into the world economy. Ministers also urge the ratification of the Fourth Amendment on the equity allocation of SDRs as soon as possible.

Institutional arrangements

Ministers support the proposed transformation of the IMF's Interim Committee into the International Monetary and Financial Committee, and they note the strengthening of IMF-Bank collaboration. They are aware of proposals to establish informal mechanisms for dialogue between "systemically significant" countries. Ministers stress that, in order for such mechanisms to gain ownership and representativeness, the choice of participants should take into account the constituency structure of the Bretton Woods institutions. They consider that such mechanisms should not undermine the role of the Bretton Woods institutions' Executive Boards and Committees as the appropriate forums for addressing the main issues facing the international monetary and financial system.

While welcoming the establishment of the Financial Stability Forum, ministers consider that developing countries should be appropriately represented in order to ensure that their views are properly reflected.

Development financing

Ministers welcome the Cologne Debt Initiative and the global consensus for deeper, broader, and more rapid debt relief to foster sustainable development and poverty reduction among the heavily indebted poor countries (HIPCs). They agree that the resources being freed by the HIPC Initiative should be directed to poverty-reduction efforts, and they welcome in particular the proposal to make sustainable poverty reduction a central focus of the ESAF. They stress that, as resources released by the initiative will not be sufficient to meet poverty reduction and social needs or enhance growth prospects, additional concessional resources should be mobilized. Ministers see merit in developing a general framework, which would properly take into consideration social issues and the link between debt relief and poverty reduction in World Bank- and IMF-supported programs under the enhanced HIPC (HIPC II), as well as strengthen countries' ownership of programs and reforms. The implementation of poverty-reduction programs should not delay the delivery of debt relief or overburden members with conditionality.

Ministers are concerned about the difficulties being encountered in securing the necessary funding for the enhanced HIPC framework. They call for an equitable burden sharing among all creditors. Funding for the enhanced HIPC should not be at the expense of non-HIPC developing countries, including those borrowing from multilateral and regional development banks, or the development and poverty-reduction needs of the HIPC countries themselves. In this connection, they express their serious concerns about using IDA resources in any form to fund the HIPC Initiative. Many developing countries have already made pledges and contributions—some in excess of what industrial countries have already made in relation to their capacity to contribute. Industrial countries—particularly the Group of Seven countries—should provide more resources than those currently pledged.

Ministers welcome the IMF proposal to implement off-market gold transactions as a way to minimize the possible adverse effect on the gold market. Every effort must be made to minimize the cost of increased reserve tranche positions on developing countries.

Ministers express serious concern about the debt problems of middle-income heavily indebted countries and non-HIPC low-income countries, and they urge that consideration be given to alleviating their debt burdens. ■

Correction

In the *IMF Survey Supplement,* which was issued on September 13, the table of IMF Quotas (on page 7) lists Belgium, Estonia, Namibia, Qatar, and Uruguay as not having completed payment of their quota increases. These countries have, in fact, completed payment of their increases.

Development Committee communiqué

Ministers endorse approach to poverty reduction, welcome enhanced World Bank–IMF cooperation

Following is the text of the Joint Ministerial Committee of the Boards of Governors of the Bank and the IMF on the Transfer of Real Resources to Developing Countries (Development Committee) communiqué, issued on September 27 in Washington, D.C. The complete text is available on the World Bank's website at www.worldbank.org/html/extdr/AM99/dc092799.htm.

The sixtieth meeting of the Development Committee was held in Washington, D.C., on September 27, 1999, under the chairmanship of Tarrin Nimmanahaeminda, Minister of Finance of Thailand.

Debt initiative, enhanced poverty focus

Ministers expressed their appreciation to the Bank and the IMF for the transparent and participatory manner in which they conducted the 1999 Heavily Indebted Poor Countries (HIPC) Initiative review. They welcomed the important role played by civil society in the development of proposals designed to make the debt relief under the HIPC Initiative deeper, broader, and faster.

Ministers endorsed—subject to the availability of funding—the enhancements to the HIPC Initiative framework for countries pursuing sound policies and committed to reform. In this context, they expressed support for a lowering of the debt sustainability thresholds to provide a greater safety cushion and increased prospects for a permanent exit from unsustainable debt, the provision of faster debt relief through interim assistance, the introduction of floating completion points that would shift the focus of assessment toward positive achievements and outcomes rather than the length of the track record, and the resulting increase in the number of countries expected to be eligible for debt relief.

Antonio Fazio (left), Governor of the Bank of Italy, with Development Committee Chair Tarrin Nimmanahaeminda.

Ministers also endorsed the proposed framework for strengthening the link between debt relief and poverty reduction while recognizing that debt relief alone would be insufficient to achieve this goal. In this context, they welcomed the proposed Poverty Reduction Strategy Papers, to be prepared by national authorities in close collaboration with Bank and IMF staff. They stressed that the Poverty Paper should be in place by the decision point; they recognized, however, that on a transitional basis the decision point could be reached without agreement on a Poverty Paper, but in all cases demonstrable progress in implementing a poverty-reduction strategy would be required by the completion point.

Ministers also welcomed and endorsed the proposals developed by the Bank and the IMF to extend the same approach to enhancing the poverty focus of all International Development Association (IDA)- and Enhanced Structural Adjustment Facility (ESAF)-supported programs and to strengthen collaboration between the two institutions. The Committee emphasized that the strategies set out in the new Poverty Papers should be country driven; be developed transparently with broad participation of elected institutions, stakeholders—including civil society, key donors, and regional development banks; and have a clear link with the agreed international development goals—principles that are embedded in the Comprehensive Development Framework. They stressed in particular the need to develop macroeconomic, structural, and social policies that will contribute to long-term poverty reduction and the need to develop measurable intermediate and outcome indicators to monitor progress. Ministers stressed the crucial role good governance plays in HIPC implementation in establishing a framework that discourages corruption and provides more effective monitoring and quality control over fiscal expenditures. Ministers called on the Bank and the IMF, in accordance with their respective mandates and expertise, to give all possible assistance to countries in bringing together the necessary social, structural, and macroeconomic policies required in developing poverty-reduction strategies, recognizing the countries' capacity constraints. The Poverty Papers would provide the basis for all IDA and IMF lending to low-income countries. Ministers also encouraged regional development banks and donors to use the Poverty Papers to guide their support.

Ministers welcomed the proposed reform of the ESAF aimed at giving greater prominence to the goal of supporting countries' poverty-reduction efforts and the proposed renaming of the facility as the Poverty Reduction and Growth Facility. Recognizing that the

new approach will involve substantial changes in Bank and IMF operations to combat poverty and the need to tailor the approach to individual country circumstances and to learn quickly from experience in early cases, the Committee strongly welcomed the commitments of the World Bank President and IMF Managing Director to its effective implementation. Ministers looked forward to receiving reports on progress achieved.

Ministers reaffirmed the importance of implementing the enhanced HIPC Initiative framework in accordance with the principles that have guided the initiative since its inception, including additionality of debt relief, the maintenance of the financial integrity of multilateral financial institutions, and the importance of burden sharing on a fair and equitable basis, including of the costs to multilateral institutions. They agreed financing of debt relief should not compromise the financing made available through concessional windows such as IDA. Ministers expressed appreciation for the many contributions to the HIPC Initiative made thus far and for the efforts made by multilateral development institutions to provide funding for the initiative from their own resources. Ministers recognized that most of these institutions will need bilateral support on an urgent basis in order to meet the additional costs resulting from the proposed enhanced framework and to enable them to implement the initiative rapidly. The Committee welcomes the agreement on the financing of the IMF's participation in the HIPC Initiative and continued concessional lending by the IMF for growth and poverty reduction in low-income member countries.

Ministers also welcomed agreement on the elements of a financing plan for multilateral development banks that respect the above principles. This will permit the enhanced HIPC framework to be launched and the delivery of debt relief to begin for those countries requiring retroactive relief and those expected to reach their decision points over the near term. They asked the World Bank to work actively and closely with the whole group of donors and other multilateral development banks to ensure that financing is mobilized to fully fund HIPC debt relief over the longer term.

Ministers also welcomed the agreement by the Paris Club to increase its debt relief under the enhanced framework by providing increased debt reduction in net-present-value terms of up to 90 percent, or more if needed, on commercial loans as well as additional relief on official development assistance claims—up to full cancellation—on a bilateral basis.

Ministers welcomed the continuing progress in the implementation of the initiative, noting that, to date, 14 countries have been considered under the initiative—with 4 brought to their completion points. The Committee urged the speedy implementation of the enhanced initiative so that as many countries as possible qualify for assistance under the initiative by end-2000.

Capital adequacy

Ministers reviewed a report from the World Bank that reflected ongoing discussions by the Bank's Executive Board and management on options to maintain and support the International Bank for Reconstruction and Development's (IBRD's) financial capacity. The Committee agreed with the report's finding that the Bank's finances remain sound. Ministers also recognized that the Bank's financial capacity may limit its ability to respond to future demands, especially when there was a deterioration in the global financial environment. Ministers requested management and the Executive Board to continue their examination of the level of financial capacity needed to preserve the IBRD's financial integrity while permitting it to help meet, within its mandate, the development needs of borrowing member countries. Ministers requested that the Bank report regularly to the Committee on these issues.

International trade agenda

The Committee noted that effective development and trade policy have become increasingly intertwined. They emphasized the importance of trade to development, poverty alleviation, and sustained global economic recovery. Ministers also emphasized that the next round of trade negotiations needed to deliver early and substantial benefits for developing and transition countries, in particular for the least developed countries. This would require improved market access and further reducing barriers to trade. They stressed that if developing and transition countries are to use the international trading system effectively to promote growth and reduce poverty, they will need to become active partners in the next round of trade negotiations. Ministers welcomed the commitment of the new Director-General of the World Trade Organization (WTO), Mike Moore, to achieve this goal and urged the World Bank, the IMF, the WTO, the United Nations Conference on Trade and Development, and other agencies to help developing and transition countries build their capacity to participate in further rounds of negotiations. The Committee called on the World Bank, the IMF, and the WTO to cooperate with other parties in developing effective programs of capacity building for trade, including through the Integrated Framework for Trade-Related Technical Assistance for the Least Developed Countries. The Bank, in particular, could provide financial and technical support to improve trade-related infrastructure and institutions, helping to build capacity in domestic institutions involved in trade policy and negotiations, and undertaking research on trade barriers to developing countries' exports.

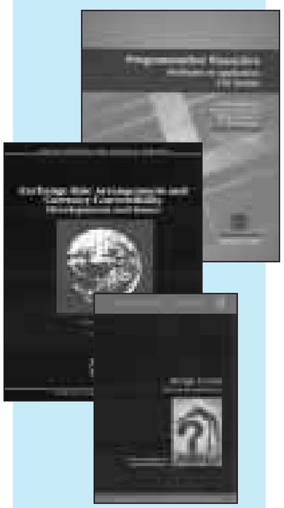
International financial architecture

Ministers welcomed the role the World Bank Group is playing to help strengthen the global financial architecture to reduce the risk and severity of financial crises and to reduce the vulnerability of developing countries to crises when they occur. The Committee stressed that at the country level the Bank's primary focus, given the objective of preventing crises, should be on assisting developing countries to strengthen their domestic financial markets and their integration with the global financial system. This should be done through helping countries overcome structural and social sources of vulnerability and build the needed policy and institutional capacity. Given the breadth and complexity of the agenda, ministers encouraged the Bank and the IMF to focus on their areas of comparative strength while developing partnerships with other international institutions. Ministers welcomed progress in the joint Bank-IMF program of financial sector assessments and the Bank's program of Social and Structural Reviews. They also welcomed the proposed enhanced collaboration with the IMF in assisting interested countries to assess their progress in implementing a range of international norms and good practices, with due consideration to differing country conditions. The Committee encouraged the Bank to continue to bring developing country experience and perspectives to the international debate. In this context, they noted the establishment of a global forum on corporate governance, launched in collaboration with the Organization for Economic Cooperation and Development, and the Bank's supportive role for work on insolvency, accounting, and auditing.

Ministers welcomed the Bank's help to developing countries on social issues, as well as its report on managing the social dimensions of crises and good practices in social policies. They encouraged the Bank to continue to develop this work and draw on it in supporting countries' poverty-reduction efforts. The Bank should accumulate and disseminate knowledge of good practices to help guide countries seeking to create institutions and implement policies that will forestall and mitigate the social costs of economic shocks and protect the most vulnerable.

Ministers welcomed the steps being taken to strengthen the work of the Development and Interim Committees, both to better reflect the enhanced level of cooperation between the Bank and the IMF and to reduce duplication in the committees' agendas. They encouraged the Bank and the IMF to continue to review experience in this area.

The Committee's next meeting is scheduled for April 17, 2000, in Washington, D.C. ■



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Managing Director's closing address

Camdessus sees "clear mandate" to integrate poverty reduction, growth issues into operations

Following are edited excerpts of IMF Managing Director Michel Camdessus's remarks at the closing Joint Session of the Annual Meetings on September 30, in Washington, D.C. The full text is available on the IMF's website (www.imf.org).

These have been a truly productive few days. You have conveyed a striking unity in your assessment of the current economic prospects and of the priorities for economic policy in terms of what needs to be done to strengthen the present recovery. You have offered overwhelming endorsement for our efforts to deal with the crisis of the past two years and for the work that we have been doing to strengthen the international monetary and financial system. And above all, the enhancement of the HIPC [Heavily Indebted Poor Countries] Initiative, the launching of our Poverty Reduction and Growth Facility, and all that goes with these steps have created a strong new impetus to the war on poverty. For the staff and management of the IMF, the fact that more than 90 countries, including 58 developing countries, have contributed to financing the IMF's share in the HIPC Initiative is the clearest possible vote of confidence.

Meetings emphasize action, avoiding complacency

In our discussions, I have detected three key themes. The first is a *determination to avoid complacency*. The atmosphere surrounding these meetings could hardly be more different than one year ago. Many governors have sounded a note of relief, perhaps even of surprise, that the recovery has become evident so soon. But, almost unanimously, governors have sounded a cautionary note, no one more clearly than the Governor for Canada in saying that "we will be making a grave error if we let the return of relative calm in financial markets and the improvement in world growth prospects lead us to believe that further reforms are not necessary." Equally, in your assessment of the work that has been done in the area of the financial architecture, I have heard notes of satisfaction, but even more forcefully, the recognition that a tremendous task lies ahead of us.

If more stable global conditions prevail, it has allowed renewed attention to be paid to the huge variety of challenges that confront so many members.

- We were reminded of the tremendous challenges of development around the world. The Governor for Madagascar spoke of the challenge for all Africa of "financing development and poverty reduction in the face of declining resource flows, the high instability of Africa's export earnings, the debt burden, Africa's marginal role in the international financial system, the threat of the HIV/AIDS epidemic, and weak human and institutional capacity."
- We have been reminded of the vulnerability of countries at all levels of development to the natural disasters of the past year: hurricanes in Central America and the Caribbean and the recent devastating earthquakes in Turkey, Greece, and Taiwan Province of China.
- We have also been reminded of the consequences of military conflicts in many parts of the world, including many that are too often overlooked by the global community. But foremost on the minds of many governors was the sad situation in East Timor. The IMF is ready to do its part to assist in the urgent, demanding task of reconstruction.

The urgency of the second theme is captured in recurring key words: *action and implementation.* There is a desire for further progress on what has been initiated to minimize the effects of the lingering risks in our current situation. The immediate agenda consists of the two broad areas that have dominated our discussions: the global financial architecture and poverty reduction.

With respect to international monetary and financial reform, I perceived a degree of impatience for advancing reforms that are pending: issues of exchange rate regimes, involving the private sector in preventing and resolving crises, and the liberalization of capital movements. These will be high on the agenda of the Executive Board in the coming months.

Increasingly, the international institutions and national agencies will be caught up in the implementation of what has already been agreed. Governors have also supported our work on transparency and standards and have warmly welcomed the work the IMF has been doing in the area of financial sector assessments, in close collaboration with the World Bank. But as we proceed, we must heed the note of caution as to how far the IMF should become engaged in the details of implementation. And one of the most severe constraints may be human resources. Many countries will need technical assistance for many years from many sources—the international standard-setting agencies and the bilateral countries—but these sources may become too stretched to meet the demand in some critical areas. Providing technical assistance in a coordinated and efficient manner will be one of the key issues in the coming months and years.

All of these issues have a bearing on the role of the IMF's surveillance. The IMF's energies will be primarily and energetically focused on the macroeconomic policies and balance of payments issues that are our

traditional mandate. But we live in an era of rapid, often volatile, capital movements and where balance of payments crises may be triggered by factors outside the traditional boundaries of surveillance. Therefore, we must try to avoid eroding the effectiveness of early warning signals by too narrow a focus in our surveillance.

These meetings have resulted in a clear mandate for the IMF to integrate the objectives of poverty reduction and growth more fully into its operations. We will do so through our participation in the enhanced HIPC Initiative, through an Enhanced Structural Adjustment Facility transformed into a Poverty Reduction and Growth Facility, and through a closer link between debt relief and poverty reduction. We will also continue to consider how to include a social dimension in our policy dialogue with our wider membership. The incidence of poverty extends far beyond the poorest countries. Although we have concentrated at these meetings on the poorest people in the poorest, most debt-ridden countries, the need extends to poor people in all countries. As the Governor for Japan reminded us with reference to East Asia: "Those who had received the smallest fruits of economic growth are now being left behind." The Chairman spoke of his own country, Nepal, which is not a participant in the HIPC Initiative, but has pervasive poverty. Our policy dialogue and advice will be attentive to such cases and will continue to be based on the basic premise that the best route out of poverty is strong, sustainable, high-quality growth.

All our work in this area hinges critically on our partnership with the World Bank. As the Governor for the Netherlands reminded us, "better quality and depth of the Bank's poverty analysis should help the IMF to adequately sequence and fine-tune macroeconomic stabilization policies." The challenge that faces both our institutions is how to implement, across a wide range of countries, at ground level, the broad principles that have been agreed between us over the past few weeks and months. And the agenda Jim Wolfensohn mapped out at the opening session points to the enormity of the task that awaits us.

As we consider the issues that should be high on our agenda for the year ahead, let me reassert the importance for development and for sustainable growth of an open, competitive trading system. To this end, I warmly welcome U.S. President Bill Clinton's call yesterday for a new trade round, to be launched later this year, that would focus strongly on products of interest to the developing countries. Let us work as hard as possible to complete this round expeditiously.

Finally, the third theme arises from the expectation that, this time, the international community and national governments will deliver what has been promised. We have an *obligation to deliver*.

The Governor for Norway, in his remarks, reminded us that "closing the gap between the haves and have-nots within developing countries as well as between countries is a question of mindsets, morals, and ethics. It is very much a question of solidarity." I believe these meetings have given substance and full recognition to the social pillar as an integral part of the new global architecture. Specifically, we have firmly established poverty as a permanent, pressingly urgent matter on the agenda of the international financial community, no longer an issue to be consigned to an afterthought in communiqués or policy papers. We have brought these concerns to the heart of our operations. And, equally, we have recognized that poverty and social justice are key ingredients of the framework for national policy formulation. ■

Managing Director's closing press conference

Camdessus reports "unanimous support" for fight against poverty, defends Russian program

Following are edited excerpts of IMF Managing Director Michel Camdessus's closing press conference on September 30 in Washington, D.C. The full transcript is available on the IMF's website (www.imf.org).

Let me tell you the things that are foremost in my mind as we come to the end of the Annual Meetings. First are the heartening comments we have heard about our actions during the past year and the encouraging suggestions about what remains to be done.

An important contribution of these Annual Meetings to the architecture discussion was to find the proper rationale or foundation for the social pillar we wanted to add to the new architecture. Angel Gurría [Secretary of Finance and Public Credit for Mexico] formulated this rationale particularly well when he said that "poverty is the ultimate systemic threat." The architecture of the new globalized economic and financial world will not be solid if we are not able to better integrate poverty-reduction concerns into the heart of our strategies. We have had this concern in mind for a long time, but never has it been so strongly put to us, and never, at least in the IMF, have we had such unanimous support for putting poverty reduction at the heart of our actions, of our surveillance, of our facilities.

For us, an extremely encouraging vote of confidence has come from people "putting their money where their mouth is." More than 90 countries have contributed money—in addition to our own contributions through

our off-market transactions of gold—to complete the financing of our facilities, making the successor to the Enhanced Structural Adjustment Facility a permanent instrument and the Heavily Indebted Poor Countries Initiative, as far as the IMF is concerned, fully financed. Of the 91 countries, 58 are developing countries, several of which had benefited from ESAF in the past and consider it a great thing to help countries poorer than themselves benefit from this kind of IMF support.

This leads me to think that we must be on the right track. The so-called bitter IMF medicine has been tried on people, but these people found it good and are ready to find money to help other people in the world benefit from this kind of medicine.

We enter here into a new phase of our working together with the World Bank—an exciting time indeed. The next stage is the need to complement aid efficiently with trade.

Question: *What is the status of the discussion on amending the Articles of Agreement with regard to the capital account, which was a theme of the Hong Kong SAR Annual Meetings in October 1997?*

Camdessus: I am a bit impatient at the slow progress in this area since the inspiring pledges made in Hong Kong SAR. Of course, the Asian crisis has somewhat reduced the enthusiasm of many and has led to a desire to define what is "good" capital account liberalization. The Asian experience has shown that you can have extremely bad liberalization—freezing short-term movements and multiplying the administrative impediments, for instance, to foreign direct investment. The experience of Korea is a very inspiring one; the president of Korea, on the occasion of our first conversation after his election, told me: "Don't be intimidated; go for capital account liberalization, but the right one, not the one we had in Korea that contributed to the crisis."

At the IMF, we are trying to see where the consensus is among our members. We have been analyzing the recent experiences with capital controls to draw the proper lessons from them and have put on the table a proposal, which we call the "third way." This is a middle point between, on the one hand, extreme, indiscriminate liberalization and, on the other, an exceedingly cautious approach that would deprive the world of the benefits of the freedom of capital movements.

Question: *Considering the new architecture and the concept that poverty reduction and financial stability go hand in hand, do you see the IMF changing its programs—for example with Brazil—to permit more allocations in the social area? Also, is the IMF considering including social targets in its regular Stand-By programs?*

Camdessus: We don't like to multiply the elements of conditionality. Many countries have already taken the seven pledges for human development [see page 310]. Of course, it is proper for us to engage in a dialogue with countries to see if they are making progress in this direction, particularly since we have come to recognize that the relation between growth and poverty reduction is a two-way street—growth is needed to reduce poverty, but poverty-reduction efforts have a strong positive impact on maximizing growth.

So, more and more, this relationship between poverty reduction and growth will be on our agenda, but this is not a reason for us to change our programs. When a program is in place, there is no reason to change it unless the country itself takes the initiative of changing it. The program in Brazil, for example, contains a significant and perfectly compatible effort directed toward education and health, for this year and next year. We look forward to more powerful development and growth in Brazil to create even more room for helping the poorest—it being understood that only efforts to promote the poorest can significantly reduce one of Brazil's most terrible problems—the very unequal distribution of incomes.

Camdessus: The architecture of the new globalized economic and financial world will not be solid if we are not able to better integrate poverty-reduction concerns into the heart of our strategies.

Question: *The governor of the Bank of Japan, Masaru Hayami, has repeatedly expressed his willingness to exercise flexibility in the conduct of monetary policy in Japan, especially in responding to new developments in the foreign exchange markets. Do you welcome his statement, especially given the shared concern of the Group of Seven about the impact of a yen appreciation on the Japanese economy, as well as on the global economy?*

Camdessus: I support the statements of the Central Bank Governor of Japan, pledging flexibility. And I note the agreement that the Group of Seven and the Interim Committee have endorsed to provide ample liquidity to the Japanese economy, which, together with the maintenance of a strong fiscal stimulus, will help the recovery to continue, in spite of the possibly too rapid strengthening of the yen. We believe that, on that basis, and provided this injection of liquidity materializes, the situation could normalize without going to what I have called in some instances the last-resort instrument—intervention in the exchange markets. My position on coordinated, unsterilized interventions, which has not changed, is that they must occur infrequently and only in very specific circumstances.

IMF First Deputy Managing Director Stanley Fischer responds to reporters' questions after the press conference.

Question: *Why have you chosen to be so assertive about the IMF's relations with Russia—that the program works, that it is indefensible to turn one's back on Russia, and that there is no evidence of theft of IMF money?*

Camdessus: I was assertive for a very simple reason. This throwing out of allegations, suggestions, and rumors of all kinds has blurred perceptions of the reality. The facts are, first, that what is at the heart of our mission in Russia—namely, supporting its difficult transition to a market economy—is working; and second, that there is no evidence of theft of IMF money in Russia.

This being said, our work in Russia is extremely difficult. We know we are working in a universe where there is capital flight, corruption, and instances of bad governance, and in a country where it is absolutely essential to establish the unquestionable integrity of its financial institutions.

Question: *What are your thoughts when you hear that Group of 10 members, particularly the non–Group of Seven members, are worried that the recent proliferation of groups, including the new Group of 20, will lessen the input from the European countries, which are traditional capital donors of the IMF and the World Bank? How do you see all this working out in relation to the IMF?*

Camdessus: What you are alluding to is to the sense of frustration of those of the 10, who are not among the 7, who have the impression that things are being done outside their control. I must tell you that those of the 24—namely, the members of the IMF Executive Board, who are not members of the 10—are frustrated not to be among the 7 or the 10. This is an element of international life we must live with—namely, to work efficiently, you tend to restrict the size of the group; but if you want consensus, if you want to reach out to the world, you need enough people at the table.

What I see at this moment is a proliferation of groupings, mushrooming, for the best possible purposes. This makes the life of the institutions a little difficult, because an institution such as the IMF must provide intellectual food to all these groups, and our staff are running around the world trying to attend meetings of all these groups. There is a degree of disorder in all of this, and I look forward to the establishment of the new architecture and to obtaining the support of the Group of 7, 10, 24, and this new group to start rationalizing it.

We have an element of lessening of this problem, provided it works—namely, the strengthening of the old Interim Committee into a new committee that has many merits, including its new name, the International Monetary and Financial Committee. We hope that this reinforced committee will help reconcile all these misunderstandings and proliferation of initiatives into a solid, strong central body.

Question: *At these meetings, the IMF has been stressing poverty alleviation more than ever before. Do we, under these circumstances, still need a World Bank?*

Camdessus: A need for a World Bank? Absolutely, provided you don't ask the IMF to take control of the World Bank and provided you only encourage us to work together hand in hand, putting our brains and hearts and our money, of course, in serving these twin purposes of poverty reduction and growth.

Long-time IMF-watchers will note that for many years now, whenever we talk about growth, we qualify it with the words "high-quality." And if you refer back to the initial definitions of high-quality growth, you will see it was growth that contributes in a sustainable way to improving the condition of the poorest while respecting the environment and national cultures.

So, the concern for poverty was there, although it was a long-term effort to have this concern not only permeate the institution in all its dimensions but also be widely accepted by the membership. Now this concern is universally recognized; we are encouraged to go in that direction.

Photo credits: Denio Zara, Padraic Hughes, and Pedro Marquez for the IMF.

Foreign direct investment rises to $4 trillion in 1998; growth is driven by mergers and acquisitions

An unprecedented growth of foreign direct investment (FDI) is contributing to the acceleration of economic integration worldwide and to the emergence of a complex international production system. Countries that do not attract FDI are in danger of becoming marginalized, according to a recent report released by the United Nations Conference on Trade and Development (UNCTAD). The *World Investment Report 1999: Foreign Direct Investment and the Challenge of Development* was released on September 27 at a press conference at the IMF.

Background

Transnational corporations—the firms that engage in international production—now number 60,000, with more than 500,000 foreign affiliates, and account for an estimated 25 percent of global output, according to Karl P. Sauvant of UNCTAD. In 1998, sales of these foreign affiliates amounted to $11 trillion, compared with world exports of $7 trillion. Thus, international production is more important than international trade in delivering goods and services to foreign markets.

Also in 1998, the world stock of FDI rose by 20 percent, to more than $4 trillion, Sauvant said. The largest 100 transnational corporations, measured in terms of foreign assets, command more than $2 trillion of foreign assets and account for $4 trillion in total sales, making them dominant players in the new international production system. General Electric is the largest transnational corporation, according to the report, closely followed by Ford Motor Company and the Royal Dutch Shell Group.

Mergers and acquisitions are driving FDI growth more than ever, particularly between transnational corporations on either side of the Atlantic, but increasingly for FDI into developing countries, according to Sauvant. Mega mergers—involving deals of $1 billion or more—have increased in number and value, amounting to about $400 billion in 1998, and this momentum shows no signs of slowing. It is possible that total FDI in 1999 could exceed $700 billion after rising almost 40 percent to more than $640 billion in 1998, UNCTAD estimated. Developed countries account for most of this investment. In the developing countries, Asia receives the most FDI, followed by Latin America and the Caribbean. Africa and the least developed countries attract little FDI in absolute terms.

Developing country challenges

For developing countries as a group, FDI is the most important source of external finance. Their share in total FDI grew steadily until 1997, when it rose to 37 percent, but it then declined to 28 percent in 1998, the report noted. FDI is concentrated in relatively few developing countries, and the report finds that many of the poorest countries are becoming increasingly marginalized as transnational corporations bypass them.

In 1998, FDI flows into Latin America and the Caribbean rose 5 percent to $71 billion from 1997. The MERCOSUR countries received almost half of the total, with Brazil receiving more than $28 billion, followed by Mexico with $10 billion. In Asia, flows were down by 11 percent to $85 billion, but FDI was the most resilient form of private capital flows. China is the largest FDI host country in developing Asia, receiving $45 billion in 1998, while Korea and Thailand experienced large increases in inflows during the year. Central and Eastern Europe, excluding Russia, received record FDI inflows of $16 billion in 1998, which was 25 percent more than in 1997. In Africa, FDI flows were $8.3 billion, down from the record $9.4 billion in 1997, leaving much of Africa's potential for FDI untapped.

Foreign direct investment
(billion U.S. dollars)

Region	FDI inflows 1997	FDI inflows 1998	FDI outflows 1997	FDI outflows 1998
World	464.0	644.0	475.0	649.0
All developed countries	273.0	460.0	407.0	595.0
European Union	126.0	230.0	218.0	386.0
United States	109.0	193.0	110.0	133.0
Japan	3.2	3.2	26.0	24.0
All developing countries	173.0	166.0	65.0	52.0
Africa	7.7	7.9	1.4	0.5
Latin America and Caribbean	68.0	72.0	16.0	15.0
Asia	96.0	85.0	48.0	36.0
Central and Eastern Europe	19.0	18.0	3.4	1.9

Data: UNCTAD, *World Investment Report*, 1999

The UNCTAD report stresses that it is thus crucial for developing countries that are not attracting FDI to create a hospitable environment while maximizing the benefits for themselves. Governments need to address corruption and reduce bureaucratic red tape, establish clear environmental regulations, and structure incentives to attract investors that will enhance labor skills, transfer technology, and develop backward and forward linkages. They must ensure that FDI contributes to growth and competitiveness and strengthens the balance of payments and that transnational corporations do not crowd out domestic enterprises or undermine the potential of infant domestic industries. ■

For more information about *World Investment Report 1999: Foreign Direct Investment and the Challenge of Development*, or to order the publication, please see UNCTAD's website: www.unctad.org.

World Economic Outlook

After two years of crisis, report upgrades global assessment of performance and prospects

Following are edited excerpts from the September 23 World Economic Outlook *press conference by Michael Mussa, Economic Counsellor of the IMF and Director of its Research Department; Flemming Larsen, Deputy Director of the Research Department; and Graham Hacche, formerly Assistant Director for the World Economic Studies Division. The full transcript of the press conference and the entire text of the October 1999* World Economic Outlook *are available on the IMF's website: www.imf.org.*

MUSSA: For the first time in two years, the *World Economic Outlook* is reporting an upgraded assessment of global economic performance and prospects. We now anticipate that real GDP growth in the world economy this year will be 3 percent—7⁄10 of a percent above the estimate of the May *World Economic Outlook*—and growth in the world economy will strengthen further next year to 3.5 percent. A year ago, the financial market turbulence after the Russian default and the Long-Term Capital Management difficulties created a bit of tension in the global economy. Due in part to timely policy actions by the world's leading central banks, those difficulties were overcome. That is an important reason why we are looking at a more favorable performance in recent months and a solidification of prospects for a more favorable performance going forward.

At the World Economic Outlook *press conference, IMF Economic Counsellor Michael Mussa responds to a question.*

The U.S. economy, of course, has continued to perform quite strongly, and we anticipate U.S. growth will hold up very well through the end of this year and slow down somewhat next year. One question is how much it will slow down and what may be needed if it does not slow naturally. In Japan, a recovery is now under way, but there are risks that it could be knocked off course if the yen appreciates substantially from recent levels. But the basis for recovery has been set, and the outcome next year could exceed our and others' forecasts if policy remains appropriately supportive of recovery in the near term. In the euro area, we are seeing increasing signs that growth is beginning to pick up after the slowdown late last year and early this year.

In emerging markets, the Asian crisis economies—with the exception of Indonesia—are giving increased signs of strengthening growth performance, most spectacularly in Korea. Latin America clearly is suffering a difficult year, but we expect a bottoming-out by the end of the year and an upturn in growth next year. Emerging market economies more generally are still under tension from the sharply reduced flow of private capital. This tension, if anything, is picking up in light of Y2K concerns. But we expect these difficulties will be overcome.

LARSEN: I would like to highlight two issues in the *World Economic Outlook*: safeguarding macroeconomic stability at low rates of inflation and Y2K issues. The achievement of approximate price stability in much of the world in the 1990s is a major accomplishment. But in quite a few cases, price stability itself has not appeared sufficient to ensure strong, sustained growth. It is still a challenge to avoid macroeconomic and financial instability. The report particularly discusses the policy challenges when prices of currently produced goods and services are stable, but asset prices are rising strongly.

We take the Y2K issues very seriously at the IMF. The IMF has been studying closely the potential consequences for our member countries and for financial markets, and this work is described in an appendix to Chapter I. Even on relatively pessimistic assumptions, the results of our contingency scenarios suggest that the consequences of Y2K problems should be manageable in most cases. We do recognize, however, that there could be some pressures and problems because of the fear of possible problems developing. We have concluded that we need to be prepared to assist our member countries against this contingency (see Press Release No. 99/45, page 335).

Rising yen, falling dollar

MUSSA: Normally, the exchange rate for a country like Japan is not a central concern of monetary policy, but when your short-term interest rates are at zero, the price level is stable or even declining, and your currency has already appreciated very substantially and threatens to appreciate more, the central bank needs to pay some explicit attention to the exchange rate. If the rest of the world indicates it wants to hold more Japanese yen, then the central bank can accommodate that demand by creating additional yen—sometimes described as nonsterilized intervention.

On the U.S. side, over the medium term the dollar does need to correct downward against virtually all other currencies to address the U.S. current account deficit. So far this year, the dollar has moved in the opposite direction against the euro; and over the medium term, that movement plausibly needs to be reversed and perhaps a little bit more than that. Since the spring of last year, there has been a very substantial upward correction of the yen. The yen today is about where it should be in terms of its medium-term adjustment path. A further significant appreciation of the yen would represent overshooting and might forestall the much needed recovery in the Japanese economy that is being very strongly supported by fiscal policy action of the Japanese government.

This is a situation in which it makes sense, provided credible means are available, to resist market developments that would undermine the preferred path of economic performance. But if intervention has no backing—or no perceived backing—from monetary policy, markets tend to believe its effect will not be large or enduring. So a key question is whether there is going to be some type of monetary policy backing of exchange market intervention. I would have little doubt that if there was a clear indication that intervention policy was to be backed in a meaningful way by monetary policy, it would be effective and persuasive in the market.

Larsen: There are clearly signs now that Europe has turned the corner.

U.S. current account deficit

Mussa: Up to this point, the growth of the U.S. current account deficit has not only been benign, it has been beneficial. Over the past 18 months or so, the U. S. economy has supplied roughly half of the total demand growth in the global economy and somewhat less than that over the past three years. That has been a positive thing for the United States and the rest of the global economy. But it has left the heritage of a large and probably still rising U.S. current account deficit that over the medium term must be reduced.

There is an entirely plausible scenario in which gradually, over the medium term, the U.S. current account deficit can shrink, while the surpluses of Europe and Japan move in the opposite direction, and, with further recovery in Asia and other emerging markets, the large surpluses in the Asian emerging market economies contract somewhat along with their economic recoveries. For this to happen, domestic demand growth in the United States, which has been running a little bit below 5 percent

IMF creates temporary facility to counter Y2K strains

The IMF announced on September 24 that it has established a temporary facility to enable it to extend short-term financing to countries that encounter balance of payments difficulties arising from a loss of confidence or other problems associated with potential or actual Y2K-related failures of computer systems. The Y2K facility will come into effect on October 15, 1999, and will expire on March 31, 2000. The text of Press Release No. 99/45, which is also available on the IMF's website (www.imf.org), follows.

"Businesses, financial institutions, and government agencies around the world have made considerable progress in repairing computer systems, and we have no reason to believe that there will be widespread Y2K problems or associated balance of payments difficulties," IMF Managing Director Michel Camdessus said. "In fact, it may well be that the Y2K facility will not be used. Nevertheless, there are uncertainties, and the potential consequences for international trade and growth of possible interruptions to production and shipments may be significant. Equally important is the potential for temporary interruptions to international capital flows, in response to perceived problems that may or may not materialize.

"In the circumstances, the IMF should give assurance to its members that it is in a position to provide financial assistance on appropriate terms to countries that may experience Y2K-related balance of payments problems," the IMF Managing Director underscored. "While we have various vehicles that could be of help, we concluded that it would be desirable to have a special temporary facility specifically designed to deal with this unique event."

The facility, which will be able to provide rapid, short-term assistance, will be available for countries encountering balance of payments pressures that may be distinguished as Y2K-related. In turn, it is expected that a country utilizing the facility would be moving vigorously to deal with its Y2K problems, and would not be experiencing significant other balance of payments difficulties, or would be addressing such problems through appropriate policies, possibly in the context of an IMF arrangement.

The facility will have an access limit of up to 50 percent of a member's quota unless there are exceptional circumstances. Drawings under the facility will be expected to be repaid within six months, with the possibility of an extension by the Executive Board of this expectation of repayment for another six months. Drawings will be subject to a 300-basis-point surcharge above standard IMF charges, except that this surcharge will increase to 350 basis points on drawings outstanding beyond six months.

The IMF has been working actively with trade associations, governments, and other international institutions to raise awareness about Y2K problems and to assist the international community in preparing contingency plans. "The IMF's liquidity position is strong," Camdessus said, adding, "I believe that any Y2K problems will be manageable, and the existence of a Y2K facility in the IMF should buttress efforts to provide sufficient assurances to forestall deeper problems."

The *IMF Survey* (ISSN 0047-083X) is published in English, French, and Spanish by the IMF 23 times a year, plus an annual *Supplement on the IMF* and an annual index. Opinions and materials in the *IMF Survey* do not necessarily reflect official views of the IMF. Any maps used are for the convenience of readers, based on National Geographic's *Atlas of the World*, Sixth Edition; the denominations used and the boundaries shown do not imply any judgment by the IMF on the legal status of any territory or any endorsement or acceptance of such boundaries. Material from the *IMF Survey* may be reprinted, with due credit given. Address editorial correspondence to Current Publications Division, Room IS7-1100, IMF, Washington, DC 20431 U.S.A. Tel.: (202) 623-8585; or e-mail any comments to imfsurvey@imf.org. The *IMF Survey* is mailed first class in Canada, Mexico, and the United States, and by airspeed elsewhere. Private firms and individuals are charged $79.00 annually. Apply for subscriptions to Publication Services, Box XS900, IMF, Washington, DC 20431 U.S.A. Tel.: (202) 623-7430. Fax: (202) 623-7201; e-mail: publications@imf.org.

for the past three years, needs to slow significantly—to something in the range of 2.5 percent—so that demand grows a little bit more slowly than output. There are good reasons to believe that because of the increase in nominal interest rates, the reversal of real terms of trade gains, and the end to the boost to consumption from mortgage refinancing, a natural slowing of demand growth can take place in the U.S. economy. The two interest rate increases earlier this year will contribute to that result.

(Left to right) Graham Hacche, Flemming Larsen, Michael Mussa, and Thomas Dawson (Director, IMF External Relations Department).

My guess is that interest rates probably will need to become a little bit firmer next year to produce the requisite slowing in demand growth. That would forestall a rise on an enduring basis of inflationary pressures. My personal preference would be to take another step of tightening before year-end and then hold through the Y2K uncertainties and review the situation again in March or May of next year.

Regional forecasts

LARSEN: What we are seeing in *Asia* is essentially a V-shaped recovery—a very deep, very severe recession, but a rapid rebound, as has often been the case in other countries after a financial crisis. In China, there has been concern about the ability to sustain the pace of structural reform when growth slows. In general, we are very encouraged by the continuing commitment of the authorities.

MUSSA: In *Latin America*, we are going to be looking at a much happier ending of this decade than the lost decade of the 1980s. The recession in Brazil has turned out to be significantly less severe than was widely anticipated only a few months ago. And Brazil's inflation has been much less aggressive than anticipated at the time the exchange rate was floated. But Argentina, Colombia, Venezuela, and Chile are experiencing tough times, and in many cases it is by no means clear that the bottom has yet been hit. However, as Mexico's and Argentina's experience after the tequila crisis indicates, once the bottom is hit, the turnaround can be quite rapid.

Mexico has been much better shielded from recent difficulties in emerging markets than have the other principal countries of Latin America. Growth in Mexico this year is around 3 percent, and somewhat better is expected next year. For Argentina, the numbers do not yet indicate a clear bottom to the recession. But we think the recovery will begin early next year, and once it does start, the growth rate of the economy moving forward will be significantly more substantial than is indicated by the year-over-year number.

LARSEN: *Europe* was affected much less than Japan and many emerging markets by the recent turbulence in financial markets and the slowdown in world growth in general in 1998. At the beginning of 1999, growth did slow significantly in a number of cases, and this explains the weaker growth performance in 1999 on average. But there are clearly signs now that Europe has turned the corner, and indicators have been quite encouraging for a number of countries in recent months, suggesting that a pickup is under way and our previous projection is likely to materialize. I would not be surprised, in fact, to see slightly higher growth rates in the second half of 1999 and in 2000 than the ones we are projecting.

MUSSA: *Russia* clearly had a very sharp recession last year, mainly after the devaluation and default, when the bottom fell out of industrial production in Russia. Then, associated with the default, Russia experienced a very sharp decline in the value of the Russian ruble and a large inflation reaction to the depreciation of the ruble. In real terms, the ruble has depreciated enormously, but this has made a lot of domestic-goods producers in Russia more price competitive. Russia's fiscal policy has improved since last year. Total and cash revenues as shares of GDP are up, and the Russian government is now running a moderate-sized primary surplus, which means it is paying back creditors, not taking on net new credits. ■

Selected IMF rates

Week beginning	SDR interest rate	Rate of remuneration	Rate of charge
September 27	3.38	3.38	3.84
October 4	3.54	3.54	4.02

The SDR interest rate and the rate of remuneration are equal to a weighted average of interest rates on specified short-term domestic obligations in the money markets of the five countries whose currencies constitute the SDR valuation basket (as of January 1, 1999, the U.S. dollar was weighted 41.3 percent; euro (Germany), 19 percent; euro (France), 10.3 percent; Japanese yen, 17 percent; and U.K. pound, 12.4 percent). The rate of remuneration is the rate of return on members' remunerated reserve tranche positions. The rate of charge, a proportion (currently 113.7 percent) of the SDR interest rate, is the cost of using the IMF's financial resources. All three rates are computed each Friday for the following week. The basic rates of remuneration and charge are further adjusted to reflect burden-sharing arrangements. For the latest rates, call (202) 623-7171 or check the IMF website (www.imf.org/external/np/tre/sdr/sdr.htm).

Data: IMF Treasurer's Department