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Spring meetings

Ministers vow to reignite global economic recovery

When the world's top financial leaders met in Washington on April 12 for the biannual meeting of the International Monetary and Financial Committee (IMFC)—against a backdrop of economic uncertainty and military conflict in Iraq—they promised to work to boost sluggish world growth, better prevent and resolve financial crises, rebuild Iraq, and reinvigorate the fight against poverty.

IMF Managing Director Horst Köhler told reporters after the meeting, "I am much more optimistic now than I was two or three weeks ago, not only because we can now assume the war will be short, but in particular because of this confirmation that the spirit of cooperation" among the IMF's 184 member countries "is strong and intact" (see IMFC press briefing, page 102). IMFC Chair Gordon Brown, the U.K. Chancellor of the Exchequer, noted that "it is a mark of the commitment of all that even in these challenging and difficult times we have been able to look beyond the here and now in examining all the long-term issues that the world economy faces."

Köhler called on advanced nations in particular to gear their policies vigorously toward growth so that economic recovery can reassert itself in the second half of 2003. The IMF predicts that GDP growth in the major currency areas will remain below potential until the end of the year (see *World Economic Outlook*, page 118). He also welcomed the ministers' commitment to urgently make concrete progress toward multilateral trade liberalization under the Doha Round, as this will be critical for higher economic growth, poverty reduction, and enabling developing countries to more fully reap the benefits of globalization (see IMFC communiqué, page 99).

Resolving crises

On the crisis resolution front, the IMFC welcomed the inclusion of collective action clauses by several countries in international sovereign bond issues, most recently in Mexico, and looked forward to the inclusion of these clauses becoming standard market policy. It also welcomed recent initiatives to formulate a voluntary code of conduct for debtors and creditors. It said it was not feasible now to move forward on establishing the IMF's proposed sovereign debt restructuring mechanism, *(Please turn to the following page)*

Spring meetings overview

(Continued from front page) although it did recommend that work continue on issues raised in its development, notably on intercreditor equity, transparency and disclosure, and aggregation.

At the spring meetings are (left to right) Ayawovi D. Tignokpa, Togo's Minister of Economy, Finance, and Privatization; Damian Ondo Mañe, IMF Executive Director; Paul Toungui, Gabon's Minister of State, Economics, Finance, and Budget; and Gregoire Laourou, Benin's Minister of Finance and Economy.

The financial leaders of the Group of Seven top industrial countries, who also met on April 12, issued their own action plan to strengthen crisis prevention and resolution measures, aimed at promoting conditions for sustained growth of private investment in emerging markets (see Group of Seven action plan, page 111). And they agreed on the need for a "multilateral effort to help Iraq," including international negotiations on Iraq's foreign debt (see Group of Seven statement, page 110). This call was promptly supported by the Bretton Woods institutions, who are expected to play an important role in reconstruction efforts (see box, below).

Fighting poverty

On April 13, the Development Committee met to "retain attention on the other war which is going on, the war against poverty," as World Bank President James Wolfensohn told reporters before the meeting. Under the chairmanship of South African Finance Minister Trevor Manuel, the committee reviewed progress toward meeting the UN Millennium Development Goals, which include cutting poverty in half by 2015 from its 1990 level. The committee stressed that "sound policies and efforts by developing countries should be supported by adequate and appropriate financing" and asked the Bank to report on the size of the financing gap at its September meeting (see Development Committee communiqué, page 106).

Wolfensohn told reporters that he was not worried that helping to rebuild Iraq would divert funds from other development purposes. "In fact, this meeting went further in terms of interest and support than any other meeting I have been to thus far" in recognizing the financing needs of developing countries, he said. Earlier, Ugandan Minister of Finance, Planning and Economic Development Gerald Ssendaula told reporters that "my appeal to the main donors is that, while they should attend to the reconstruction of Afghanistan and Iraq, Africa is also in dire need of resources to get rid of poverty" (see African Finance Ministers' press conference, page 116). ■

IMF, World Bank ready to support Iraq

At a press conference following the IMFC meeting, IMF Managing Director Horst Köhler said that it was premature to decide on the timing of any staff visit to Iraq, but added that "there is an understanding that the World Bank and the IMF should prepare themselves and should take up this task." This will represent the first official contact between Iraq and the IMF in many years. Iraq has been a member of the IMF since 1945, but the last Article IV consultation (annual discussion between the IMF and a member country on the general health of the economy) was completed in 1980; its 1983 consultation was prepared, but never completed. Although Iraq does not have any outstanding loans from the IMF, it does have arrears of close to $72 million (slightly over SDR 52 million) on its use of SDRs.

In their final communiqués, both the IMFC and the Development Committee pointed to the pressing need to "restore security, relieve human suffering, and promote economic growth and poverty reduction. We support a further UN Security Council resolution. We further note that engagement by the international community including the Bretton Woods institutions would be essential for sustained economic, social, and political development in Iraq, recognizing that the Iraqi people have the responsibility to implement the right policies and build their own future. The IMF and the World Bank stand ready to play their normal role in Iraq's re-development at the appropriate time. They will also monitor closely the impact of the conflict on all their members and stand ready to help and support those adversely affected. It is important to address the debt issue, and we look forward to early engagement of the Paris Club."

The IMF's primary role in a postconflict situation reflects the organization's areas of expertise. It helps the country restore macroeconomic stability and the basis for sustainable growth. The main elements of the IMF's postconflict support include technical assistance to rebuild the statistical and administrative capacity of key economic institutions responsible for making and implementing fiscal, monetary, and exchange rate policies; and policy advice to develop a macroeconomic framework and help in mobilizing donor support.

IMFC communiqué

Ministers press for progress on global trade talks

Following is the full text of the communiqué of the International Monetary and Financial Committee (IMFC) of the Board of Governors of the IMF, which met in Washington, D.C., on April 12, and was chaired by Gordon Brown, U.K. Chancellor of the Exchequer.

Meeting at a time of economic uncertainty, the committee reaffirms its commitment to close international cooperation to strengthen confidence and support the global recovery. It underscores the importance of continued vigilance. But with readiness to adjust policies as necessary and determined further action on the structural front, the world economy has the prospect of strengthening growth and renewed prosperity. Substantial and concrete progress with multilateral trade liberalization is a key priority for the coming months and has the full political commitment of ministers.

In the advanced economies, sound fundamentals and policies should deliver stronger growth in the second half of the year. With inflationary pressures well contained, monetary policies should remain accommodative, and in many countries there is room to ease monetary policy further if needed. On the fiscal side, the automatic stabilizers should be generally allowed to operate, though in many countries action is needed to address medium-term fiscal pressures, including those arising from aging populations. The advanced economies have a shared responsibility to go further in implementing structural reforms—to enhance prospects for a sustained broad-based world recovery that helps correct global imbalances. In the United States, policies consistent with a sound medium-term fiscal position remain important. In Europe, labor and product market reforms need to be accelerated. In Japan, further steps are needed to strengthen the banking and corporate sectors and end deflation, accompanied by a start toward strengthening the medium-term fiscal position.

Emerging market countries will need to continue to strengthen their policies for macroeconomic stability and structural reforms and therefore their resilience to adverse global developments. In countries facing external financing constraints, efforts to sustain macroeconomic stability will continue to be key to restoring confidence. For all countries, the continued implementation of reforms to strengthen banking and corporate sectors and underpin growth remains a priority. The IMF has a key role to play in supporting these efforts.

Prospects for stronger growth in low-income countries should be supported by improved economic policies, stronger institutions, progress in resolving regional conflicts, and increased donor resources, including through debt relief under the Heavily Indebted Poor Countries (HIPC) Initiative. Sustained implementation of sound policies, supported by strong ownership and the Monterrey Consensus, will remain key to reducing poverty and meeting the Millennium Development Goals. African countries need to continue to press ahead with the wide-ranging reforms embedded in the New Partnership for Africa's Development—in particular to improve the quality of their institutions and ensure peace and security. The committee reiterates the importance of technical assistance, including the contribution of AFRITACs and other regional technical assistance centers. It calls on the international community to urgently mobilize additional assistance to address the serious food shortage in Africa.

People's Bank of China Assistant Governor Li Ruogu with IMFC Chair Gordon Brown.

The committee notes that the present situation in Iraq poses significant challenges, with an urgent need to restore security, relieve human suffering, and promote economic growth and poverty reduction. We support a further UN Security Council resolution. We further note that engagement by the international community, including the Bretton Woods institutions, would be essential for sustained economic, social, and political development in Iraq, recognizing that the Iraqi people have the responsibility to implement the right policies and build their own future. The IMF and the World Bank stand ready to play their normal role in Iraq's redevelopment at the appropriate time. They will also monitor closely the impact of the conflict on all their members and stand ready to help and support those adversely affected. It is important to address the debt issue, and we look forward to early engagement of the Paris Club.

The committee—having greatly benefited from the views of Dr. Supachai Panitchpakdi, Director-General of the World Trade Organization (WTO)—underscores the urgency of concrete progress toward multilateral trade liberalization under the Doha Round through the continued commitment of the international community. This will be critical in supporting higher economic growth and poverty reduction, and enabling developing countries to participate more fully in the benefits of globalization. The committee accordingly calls on industrial, emerging, and developing countries to play their part in renewed efforts to address obstacles to further progress in advance of the ministerial meeting of the WTO in Cancun next September. Urgent progress is needed in a number of areas, including agriculture, where better market access and lower trade distorting subsidies are particularly important for developing countries. The IMF, in collaboration with other international institutions, stands ready to support members' closer regional cooperation in the context of deeper integration into world markets.

Central bankers convene (from left) Wim Duisenberg, (European Central Bank), Alan Greenspan (U.S. Federal Reserve Board), and Sir Edward George (Bank of England).

Strengthening crisis prevention

The committee reiterates the importance it attaches to strengthening the IMF's crisis prevention capacity and welcomes the steps in many countries to improve economic resilience and financial stability. However, there is still room for further improvement. Going forward, sustained implementation of a strengthened framework of bilateral, regional, and multilateral surveillance will be essential to provide more robust assessments of crisis vulnerabilities, debt sustainability, currency mismatches, and other balance sheet and capital account developments, as well as further progress in strengthening data provision to the IMF and data dissemination to the public.

The committee welcomes progress with the standards and codes process and the Financial Sector Assessment Program (FSAP) and the role these play in enhancing IMF surveillance. It calls on the IMF to continue to move forward with these initiatives to strengthen members' institutions, policy frameworks, and financial sectors, including through technical assistance. It stresses the importance of further enhancing the quality and effectiveness of standards and codes assessments, and calls on the IMF to implement quickly agreed measures to strengthen prioritization, technical assistance, and follow-up of FSAP and ROSC [Reports on Standards and Codes] assessments. In this context, the committee looks forward to the further work of the Financial Stability Forum and standard-setting bodies on strengthening the content and coverage of standards in accounting, auditing, and corporate governance, and on improving transparency and financial disclosure.

The committee supports the IMF's continued efforts to make surveillance more comprehensive and accountable, including through strengthening the IMF's policy advice on reducing vulnerabilities; greater attention to the spillovers from policies in countries of systemic or regional importance; more effective use of the IMF's cross-country experience; enhanced awareness of political economy factors; and bringing to bear a fresh perspective in surveillance of program countries. The committee looks forward to the IMF's further work on surveillance and other crisis prevention issues and a report on progress for this year's annual meetings.

The committee welcomes the increase in voluntary publication of country staff reports, but notes that the rate of publication across countries and regions remains uneven. It looks forward to further progress through the forthcoming review of the IMF's transparency policy, and stresses that the candor of the IMF's analysis and advice should be preserved.

The committee emphasizes support for ways to achieve the objectives of the Contingent Credit Lines in encouraging policies to reduce vulnerabilities and providing a means of support for members with strong policies in dealing with global financial developments. It looks forward to a report on how best to promote these objectives following the conclusion of the review of the facility.

Resolving financial crises

Effective crisis resolution mechanisms, by promoting sound policies and better functioning capital markets, contribute to crisis prevention. The committee welcomes the strengthened framework on access to IMF resources. This includes the substantive criteria for exceptional access in capital account crises and strengthened procedures, such as early involvement of the Executive Board in the process and a separate report evaluating the case for exceptional access. Consistent implementation of the framework will provide members and markets with clarity and predictability about IMF decisions in crises.

The committee welcomes the inclusion of collective action clauses (CACs) by several countries, most recently Mexico, in international sovereign bond issues. It also welcomes the announcement that, by June of this year, those European Union countries issuing bonds under foreign jurisdictions will include CACs. The committee welcomes the work of the Group of 10, emerging markets, and the private sector in contributing to the development of CACs. It looks forward to the inclusion of CACs in international bond issues becoming standard market practice and calls on the IMF to promote the voluntary inclusion of CACs in the context of its surveillance. The committee welcomes recent initiatives to formulate a voluntary code of conduct for debtors and their creditors, which will improve the restructuring process, and encourages the IMF to contribute to this work.

The committee welcomes the work of the IMF in developing a concrete proposal for a statutory sovereign debt restructuring mechanism (SDRM) and expresses its appreciation for the IMF management and staff's efforts. The extensive analysis and consultation undertaken in developing the proposal have served to promote better understanding of the issues to be addressed in bringing about orderly resolution of crises. The Managing Director's report sets out the current position. The committee, while recognizing that it is not feasible now to move forward to establish the SDRM, agrees that work should continue on issues raised in its development that are of general relevance to the orderly resolution of financial crises. These issues include intercreditor equity considerations, enhancing transparency and disclosure, and aggregation issues. The IMF will report on progress at the committee's next meeting.

Supporting low-income countries

The committee recognizes the urgent need to address the challenge of meeting the Millennium Development Goals and reiterates that the IMF continue to have an important role to play in assisting low-income countries' progress toward them. This will require enhanced efforts by developing and developed countries working in partnership. The committee stresses the importance of sound macroeconomic policies and strong public expenditure and financial management systems. The committee recognizes the urgent need to enhance market access and to increase the level and effectiveness of donor resources for developing countries. Proposals to achieve this, including facilities, are being considered, and the committee looks forward to progress in the coming months. Building on countries' poverty reduction strategy papers (PRSPs), the committee encourages the IMF to work with low-income countries to strengthen further the alignment of the Poverty Reduction and Growth Facility, domestic budgets, and the PRSP approach. This will be facilitated through more realistic economic projections, systematic analysis of the sources of growth, effective Bank–IMF collaboration, and flexibility in program design, including to accommodate higher aid inflows. The committee encourages donors to coordinate and harmonize their assistance in line with PRSP priorities, and to provide technical assistance to help members build the needed capacity to design and operationalize PRSP strategies and to improve public expenditure management. It endorses further work on the linkages between growth and poverty reduction, including the role of the private sector. The committee also looks forward to the review of the role of the IMF in low-income countries over the medium term, and its paper on helping low-income countries to deal with shocks.

Lesotho's Finance Minister Timothy Thahane greets Eduardo Aninat, who will be stepping down as IMF Deputy Managing Director.

The committee welcomes the further progress made in implementing the HIPC Initiative but notes that some countries have experienced delays in reaching the completion point, and that other eligible countries are facing obstacles to participation in the Initiative. It looks forward to a review of these issues at its next meeting. The committee reaffirms its commitment to the full financing of the Initiative. It urges all creditors to participate fully, and encourages further Bank–IMF efforts to help creditor and debtor countries address HIPC-to-HIPC debt relief and creditor litigation issues. It emphasizes the need to ensure lasting debt sustainability, which will require both the full implementation and financing of the Initiative, and continued sound economic policies, good governance, and prudent debt management. In this context, the committee welcomes the efforts by some countries to provide additional debt relief beyond HIPC terms. The committee supports joint Bank–IMF work to

improve its assessments of longer-term debt sustainability for heavily indebted poor countries, and looks forward to a progress report at the next meeting.

Other issues

The committee welcomes the further actions by members to combat money laundering and the financing of terrorism, and notes with satisfaction the progress with the 12-month pilot program of assessments. It underscores the importance of continued close cooperation between the IMF, the World Bank, the Financial Action Task Force, and regional bodies to complete the pilot successfully, and of further enhancing the delivery of critically needed technical assistance. The committee encourages all members to adopt laws and practices to combat money laundering and the financing of terrorism that are consistent with the agreed international standards, and looks forward to a full report at the conclusion of the pilot program.

The committee considers it important that, as pointed out in the Monterrey Consensus, all members should have an adequate voice and representation in the institution. It welcomes recent administrative steps to strengthen the capacity of the African constituencies. The committee notes that the Twelfth General Review of Quotas has been concluded and that the IMF is well positioned to meet the projected needs of its members. The committee looks forward to receiving a status report by the 2003 Annual Meetings on the adequacy of IMF resources, the distribution of quotas, and measures to strengthen IMF governance, consistent with the resolution of the Board of Governors, in the context of the Thirteenth General Review of Quotas. The committee recommends completion of the ratification of the Fourth Amendment.

The committee welcomes the thorough follow-up being given to the first report of the Independent Evaluation Office (IEO) on prolonged use of IMF resources. It looks forward to future IEO reports as a way of enhancing the listening and learning culture within the IMF.

The committee expresses its appreciation of the work of Eduardo Aninat as Deputy Managing Director.

The next meeting of the IMFC will be held in Dubai, on September 21, 2003. ■

IMFC press conference

Brown and Köhler hail "spirit of cooperation"

Following are edited excerpts from the International Monetary and Financial Committee (IMFC) press conference that took place on April 12 in Washington, D.C. Participating in the press conference were Gordon Brown, Chair of the IMFC and U.K. Chancellor of the Exchequer, and Horst Köhler, IMF Managing Director. The full transcript is available on the IMF's website (www.imf.org).

Brown: "At this time, of risk, we must remain vigilant, with each of us asking what contribution we can make to greater stability and growth, and what contribution we can make to support growth and prosperity in the developing countries and in emerging markets."

BROWN: We have been meeting at a time of economic uncertainty and faced by the challenge posed by the uncertainties in Iraq. It is a mark of the commitment of all that even in these challenging and difficult times we have been able to look beyond the here and now in examining all the long-term issues that the world economy faces. As we addressed these long-term challenges we did so in the spirit of cooperation, with the same shared purpose and common endeavor that was present at the creation of the IMF and the World Bank in 1945.

First, on Iraq, it is in this spirit of cooperation and looking to the future that we noted in the communiqué the significant challenges posed by the current situation and the urgent need to restore security to relieve human suffering and promote economic growth. We are all agreed on the need for a further UN Security Council resolution and on the engagement by the Bretton Woods institutions—the IMF and the World Bank. They stand ready to play the normal role in Iraq's redevelopment at the appropriate time.

The IMF and the Bank will also monitor closely the impact of the conflict on all members and stand ready to help those adversely affected. We also agreed on the importance of addressing the debt issue, and we look forward to the early engagement of the Paris Club on Iraqi debt. I believe it is in the same spirit of cooperation that we stood ready today to build on the sound fundamentals that exist in the world economy to examine and highlight the potential for renewed growth.

At this time of risk, we must remain vigilant, with each of us asking what contribution we can make to greater stability and growth, and what contribution we can make to support growth and prosperity in developing countries and in emerging markets. In the advanced countries—with policies consistent with a sound medium-term fiscal position in the United States, accelerated labor and product market reforms in Europe, and further steps to strengthen banking and corporate reform in Japan—sound fundamentals and policies should deliver stronger growth in the second half of the year. Emerging market countries will need to strengthen their policies for macroeconomic stability and structural reform, while the prospects for growth in low-income countries should be supported by improved economic policies, stronger institutions, progress in resolving regional conflicts, and increased donor resources, including through debt relief under the HIPC [Heavily Indebted Poor Countries] Initiative.

On trade, we benefited from the views of the WTO [World Trade Organization] Director-General, who spoke to the IMFC this morning. We agreed on the urgency of concrete progress toward multilateral trade liberalization under the Doha Round. This will be critical, in our view, in supporting higher economic growth and poverty reduction, especially in the developing countries. Our communiqué stressed the urgency of all governments pushing forward the trade initiative so that we can make progress in Cancun and meet the timetables set for 2005.

We discussed new mechanisms for crisis prevention and crisis resolution. We welcomed the progress made with the codes and standards process. We support the IMF's continued efforts to make surveillance more comprehensive and accountable. We welcome the inclusion of collective action clauses [CACs] by several countries in international sovereign bond issues—most recently in Mexico. We look forward to the inclusion of CACs becoming standard market policy. We welcome the work of the IMF to develop a concrete proposal to an SDRM [sovereign debt rescheduling mechanism]. We agreed that the IMF will report on progress at the committee's next meeting, and we look forward to discussions with the private sector on the proposed code of conduct.

In our communiqué, we refer to the need for a new partnership between developed and developing countries. We agree that we want, by autumn, a report from the IMF and the Bank on debt sustainability and the position of the HIPCs on points of completion. We also reviewed and discussed new proposals, including for the international finance facility, and proposals to achieve this are being considered. The committee looks forward to progress on these by its next meeting.

So you can see that on issues facing the world today, there was a common approach. It is based on shared values and highlighted by the desire for extensive international cooperation on the world economy, trade, measures for crisis resolution and prevention, Iraq, and that new partnership that we seek between developed and developing countries. I'm pleased by the outcome of the meeting today.

KÖHLER: I'm pleased about the outcome as well. My earlier sense that the spirit of cooperation in the IMF is intact and strong was indeed confirmed by the outcome of this meeting. I am very grateful for the chair, Gordon Brown, who led the discussion so ably and so creatively.

Köhler: "My earlier sense that the spirit of cooperation in the IMF is intact and strong was indeed confirmed by the outcome of this meeting."

Most important is the confirmation that growth and growth policy have to be in the midst of the economic policy concept. And here, again, the advanced countries have a particular responsibility to boost their growth, particularly through structural reforms. As Chancellor Brown said, trade and the urgency that the Doha Round will come to a successful conclusion is another milestone from this meeting for the future. And I was particularly pleased that the finance ministers now go back to their capitals advocating a successful outcome of the Doha Round.

Last but not least, there was unanimity that the IMF should stay strongly engaged in low-income countries and should, together with the World Bank, implement the initiatives taken in the past years. The Chancellor has outlined where we should focus on new elements, and this will contribute to a positive outlook regarding the global economy. I am much more optimistic now than I was two or three weeks ago, not only because we can now assume the war will be short, but in particular because of this confirmation that the spirit of cooperation in this membership of 184 members of the IMF is strong and intact. This gives me a lot of confidence and optimism for the future.

QUESTION: What does the term "normal role" mean with regard to the IMF's or the World Bank's role in Iraq? And what is your view on debt forgiveness for Iraq as opposed to debt restructuring?

KÖHLER: In postconflict countries, like Kosovo, Afghanistan, and East Timor, the normal role of the IMF, together with the World Bank, is to build a task force. The task force structures the items that have to be looked at. As a first step, we send, at the appropriate time, a fact-finding mission. This first step can only be

when there is physical security. It is premature to decide on the possible timing of the mission, but there is an understanding that the World Bank and the IMF should prepare themselves and should take up this task. There was, possibly to the surprise of many, total unanimity that whatever we do, the framework for that will be based on a new United Nations resolution.

With regard to debt forgiveness, this is a bit premature for me to judge. It is more in the hands of creditors. I think before we talk about debt forgiveness, we should know the amount of the debt and what the contribution of debt forgiveness is through a comprehensive concept to rebuild Iraq, and bring it on the track of growth, job creation, and improving living standards.

BROWN: There will be questions about how much debt is actually involved, as Mr. Köhler has said. We look forward to early engagement by the Paris Club—the first step being data collection to establish what the debt is. As to the role of the international institutions in Iraq, this was a discussion that proceeded by consensus and an enormous will to cooperate and work together to find a way forward. There was unanimous support for a further UN Security Council resolution on these matters, and everybody wanted to see involvement by the World Bank and the IMF. Our communiqué noted that engagement by the international community, including the Bretton Woods Institutions, would be essential for sustained economic and social development, recognizing that the Iraqi people have the responsibility to implement the right policies and build their own future. This was an enormously positive step forward.

QUESTION: What would that UN resolution have to say to satisfy your requirements to be part of the reconstruction?

BROWN: Our debate was not on the contents of the resolution. That is a matter for the United Nations. There was unanimity that there be a fourth resolution and there be a role for the IMF and the World Bank in the development of Iraq.

QUESTION: Is there anything that has to be in that resolution, however? On previous resolutions, there was a discussion that because it is a military occupation, there are international laws that have to be considered and parts of your charters that would require certain things.

BROWN: There was an understanding that a UN resolution has got to deal with unfreezing of assets. The U.K. government, for example, holds frozen assets of the previous regime—assets that we would want unfrozen, but only unfrozen by a UN resolution. There is the further question of sanctions against Iraq. That has to be dealt with by a UN resolution. There are many issues, including what the international financial institutions might do, that could be the subject of that resolution. But I repeat, it wasn't the job of the IMFC today to either draw up a resolution or anticipate what would be in that resolution.

QUESTION: Iraq has an urgent need for a currency and a payments system to make their economy work. Are you satisfied measures are being taken to put those in place even before the Bretton Woods institutions go in?

KÖHLER: I think the IMF can contribute to the plan and the concept to build up a solid currency. The United States obviously has already made preliminary considerations. After this meeting, we are now in a position to come rapidly together, compare notes, and then define how we move forward.

QUESTION: Could you comment on the question of a sovereign debt restructuring mechanism?

BROWN: There has been enormous progress on the [collective action clauses] CACs, including countries now wishing to move ahead and use them in a way they didn't before. Equally, the proposals that now exist for a new code of conduct, about restructuring, are proposals that are going to be moved forward quickly and in consultation with the private sector. It is on that basis that the committee said that while it wasn't feasible to move forward to establish the sovereign debt restructuring mechanism, it agreed work should continue on issues raised in its development.

QUESTION: What kind of steps can the IMF take to encourage the removal of agricultural subsidies?

KÖHLER: We prepare the analysis and the data for making the case for more open markets, and we will undertake further research on trade issues. We are also advocates for the political objective that this Doha Round not only come to its agreed objective, but also do so within the set timetable.

BROWN: There are four issues that we have got to move forward quickly on in the WTO talks: agriculture, pharmaceuticals, services, and help for developing countries. These issues are not moving forward on the timetable we expected. We are looking for urgent progress, particularly on agriculture, as we run up to the Cancun talks in September. For immediate as well as long-term economic reasons, we put a great premium on the WTO talks.

I believe that if we have the same cooperation we have seen today—on crisis prevention and crisis resolution, on Iraq, on shared views on the future of the world economy, on debt relief, and on international development—then I hope we can see the same progress in the talks on agriculture, pharmaceuticals, services, and access for developing countries in the trade round.

QUESTION: Did you consider increasing the number of Executive Directors so that developing countries can have a fairer and more equal representation at the Executive Board?

BROWN: You should look also to the Development Committee meeting [see communiqué, page 106, where these matters are discussed in some detail. Our communiqué refers specifically to steps that have been taken to strengthen the capacity of the African constituencies and the extra resources that have been made available there. It also mentions reports that are going to be received at the 2003 annual meetings. These issues are all being discussed. There is a determination that all countries should have an adequate voice and representation in the institution.

I would also draw your attention to the very positive discussion we have had on the need to make progress on debt relief and on meeting the UN Millennium Development Goals by 2015. Extra resources will be required, and we are going to look at new initiatives, including the international finance facility that the United Kingdom has put forward. We recognize that meeting the responsibilities of the new partnership between developed and developing countries means not only developing countries making changes in the way they run their countries, but also developed countries taking up our responsibility to find extra resources. I accept that as a responsibility that we will have to look at again and discharge as we look forward to our September meetings this year. ■

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Development Committee communiqué

Ministers pledge to continue global effort to reduce poverty

Following is the full text of the Development Committee communiqué issued on April 13 in Washington, D.C.

We met today to review progress in the work of implementing the strategies, partnerships, and actions agreed in Monterrey and Johannesburg to achieve the Millennium Development Goals and to consider ways to enhance the voice and participation of developing and transition countries in our institutions.

Joseph Deiss (left), head of the Swiss Federal Department of Foreign Affairs, with Bohum Bouabre, Minister of Economy and Finance for Côte d'Ivoire.

Since our meeting last fall, the global environment has become more uncertain. Slower economic growth, the war in Iraq, and failure to make more substantive progress on the Doha Development Agenda add to the challenge of implementing the global development agenda. We therefore strongly reaffirmed our commitment to the global effort needed to reduce poverty in developing and transition countries and achieve the Millennium Development Goals.

To accelerate progress toward these and related goals, we emphasized the need for policies by both developed and developing countries in partnership to generate stronger economic growth complemented by actions to enhance the capabilities of poor people to participate in growth and access key social services. For developing countries, three interrelated areas in particular require strengthened efforts: improving the environment for investment and private sector activity, including macroeconomic stability and supporting infrastructure; strengthening governance, including public financial management, and capacity in the private and public sector; and increasing human capital through broader and more effective delivery of basic and social services to the poor. Such stronger reform efforts by developing countries would lay the foundations for enhanced growth and private financing. As agreed at Monterrey, these efforts need to be matched with stronger support from developed countries, in particular through increased market access for developing country exports, debt relief, and increases in the volume, predictability, and effectiveness of aid. Proposals to achieve this, including facilities, are being considered, and we look forward to progress in the coming months. We are pleased that on April 8, the International Development Association's Thirteenth Replenishment became effective. We also reaffirmed our commitment to increased assistance to the sub-Saharan African and other countries that face special challenges in meeting the Millennium Development Goals.

On improving aid quality, including its delivery and management aspects, we called for swift progress in implementing the results agenda and the agreements in the Rome Declaration on Harmonization. We underlined the central importance of anchoring strengthened efforts in country-owned strategies, as set out for low-income countries in poverty reduction strategy papers, linked to national budget processes and providing the country context within which donors and international agencies can align support.

We welcomed the progress on developing a global monitoring framework to allow the Committee to regularly assess progress and to reinforce accountabilities among developing and developed countries, as well as institutional partners, for the policies and actions for achieving the Millennium Development Goals and related outcomes. We urged the Bank and the IMF to continue to work closely with partner agencies—the United Nations, regional development banks, the Organization for Economic Cooperation and Development's Development Assistance Committee, and the World Trade Organization—using institutional mandates to guide the division of responsibilities for monitoring work. We called upon both multilateral agencies and bilateral donors to take the necessary steps to refine and harmonize their instruments of analysis and measurement. In this context, we urged the Bank, working in a participatory manner, to continue to improve the Country Policy and Institutional Assessment methodology and the transparency of its application. The urgency of the work on statistical capacity building, especially for those countries most at risk of not meeting the Millennium Development Goals, was underlined. We looked forward to the next global monitoring report.

Continuing progress on the fast-track initiative on Education For All was welcomed although we recognized that more needs to be done to follow up on the commitment to adequately fund the initial seven countries and to provide the required support to other countries that meet the eligibility criteria. Furthermore, extra efforts are needed to achieve the 2015 Millennium Development Goals on gender parity in access to primary and secondary education. We asked, before our next meeting, to be informed on progress. We reviewed progress on water and sanitation and underlined the important contribution that these make to the other development goals. We welcomed the Bank's recent strategy to enhance support to the water sector and look forward to its implementation. We noted the recent report of the Panel on Financing Water Infrastructure, and asked the Bank to consider, before our next meeting, how it can implement relevant recommendations of the Panel report. We also considered progress in health and HIV/AIDS and encouraged the Bank to strengthen further its cooperation with other partners and to intensify its efforts at the country level. While each service sector will have to find its own approach to accelerating progress, we underlined the importance of anchoring the efforts to achieve Millennium Development Goals goals in country-owned strategies, such as in poverty reduction strategy papers for low-income countries. We stressed that sound policies and efforts by developing countries should be supported by adequate and appropriate financing, and we asked the Bank to report on progress in this regard at our next meeting.

We emphasized the critical role of investment in infrastructure for economic growth, and its linkages with the provision of social services and the attainment of the Millennium Development Goals. We welcomed the Bank's renewed commitment to increase its support to such investment and asked the Bank to report on its further efforts at our next meeting.

Trade remains of crucial importance to growth and poverty reduction. At a time of global uncertainty, it is even more important to demonstrate that multilateral cooperation can succeed in meeting the ambitious targets set for the Doha Development Agenda. We urge countries to come to an agreement quickly in those areas where Doha deadlines have already been missed. It is essential for developed countries to do more to liberalize their markets and eliminate trade-distorting subsidies, including in the areas of agriculture, textiles, and clothing, which are of particular importance for developing countries. At the same time, we emphasize the importance of trade facilitation and liberalization efforts in developing countries. These efforts must be integrated into an overall development strategy, in conjunction with the necessary policies, infrastructure, and institutional capacities that strengthen their ability to participate in international trade. We call on the Bank and the IMF to continue to step up their efforts to support trade. We urge that future Country Assistance Strategies include trade-enhancing lending operations and capacity building for member countries where such trade-related support is a clear country priority.

On the dais at the Development Committee press conference are (right) Trevor Manuel, Chair of the committee, and James Wolfensohn President of the World Bank.

Enhancing the voice and effective participation of developing and transition countries in the work and decision making of the Bretton Woods Institutions can contribute importantly to strengthening the international dialogue and the effectiveness of these institutions. We welcomed the recent capacity-enhancing decisions by the Executive Boards of the Bank and the IMF, and we urge them to consider additional steps that might be taken. These decisions will help to ensure that a more effective capacity exists to articulate the views and concerns of all members. We encourage potential donors to actively pursue the idea of creating a financing mechanism that could support independent research and advice in key policy areas. Broader and more far-reaching ideas have also been advanced to help achieve enhanced participation in the institutions. We note that a status report by the IMF's Executive Board to the International Monetary and Financial Committee on the adequacy of IMF resources, the distribution of quotas, and the strengthening of IMF governance is to be prepared for its next meeting. We requested the Boards of the Bank and the IMF to consider and elaborate upon options with a potential for broad support, taking

Brazil's new Finance Minister, Antonio Palocci.

account of shareholder and institutional implications. On this basis, we will pursue our discussions of these matters and requested a progress report for our next meeting.

We welcomed the progress made on the Heavily Indebted Poor Countries (HIPC) Initiative and reconfirmed our commitment to its implementation and full financing. We recalled that achievement of long-term debt sustainability will require actions on the part of HIPCs as well as development partners to complement debt relief under the enhanced HIPC Initiative. We also recalled that within existing guidelines, additional relief can be provided at the completion point, on a case-by-case basis. We welcomed the donor community pledges to close the financing gap in the HIPC Trust Fund and urged donors to translate these into concrete contributions in the coming months. We welcomed the recent paper by the Bank and the IMF that reviewed the difficult issues of creditor participation, including HIPC-to-HIPC debt relief and creditor litigation, and welcomed the decision by the Bank to explore options to assist with HIPC-to-HIPC debt. We once again reiterated the request that all official bilateral and commercial creditors that have not yet done so participate in the HIPC Initiative. We look forward to reviewing

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Press Releases

03/38: IMF Completes First Review of Transitional Stand-By Arrangement with Argentina, Approves $307 Million Disbursement, March 19

03/39: IMF Approves $205 Million Stand-By Arrangement for Ecuador, March 21

03/40: IMF Completes First Review of the Democratic Republic of the Congo's PRGF Arrangement and Approves $36 Million Disbursement, March 24

03/41: IMF Completes Benin's Fourth Review Under the PRGF, March 24

03/42: IMF and World Bank Support $460 Million in Debt Service Relief for Benin, March 25

03/43: IMF Completes Eighth Review of Indonesia Program, Approves $469 Million Disbursement, March 28

03/44: IMF Completes Second Review of Peru's Stand-By Arrangement, Approves $38 Million Disbursement, March 31

03/45: IMF Invites Public Comment on Latest Draft of *Compilation Guide on Financial Soundness Indicators,* April 1

03/46: IMF Approves One-Year $118 Million Stand-By Arrangement for Bolivia, April 2

03/47: IMF Completes Third Review of Armenia's PRGF Arrangement and Request for Waiver of Performance Criterion, April 2

03/48: The Republic of Kazakhstan Subscribes to the IMF's Special Data Dissemination Standard, April 4

03/49: IMF Managing Director Issues Statement on Turkey, April 6

03/50: Communiqué of the IMFC, April 12

03/51: IMF Approves US$137 Million Credit Disbursement Under Extended Arrangement with Serbia and Montenegro, April 16

Public Information Notices

03/35: IMF Concludes 2002 Article IV Consultation with Uganda, March 20

03/36: IMF Concludes 2002 Article IV Consultation with Lebanon, March 20

03/37: IMF Concludes Discussion on Access Policy in the Context of Capital Account Crises; and Review of Access Policies in the Credit Tranches and the Extended Fund Facility, March 21

03/38: IMF Concludes 2003 Article IV Consultation with Brazil, March 24

03/39: IMF Concludes 2002 Article IV Consultation with Paraguay, March 27

03/40: IMF Concludes Discussion on the Eastern Caribbean Currency Union, March 28

03/41: IMF Concludes Article IV Consultation with Bhutan, March 31

03/42: IMF Board Discusses Economic Policy Issues Arising in the Context of a Sovereign Debt Restructuring, April 2

03/43: IMF Executive Board Reviews International Standards: Strengthening Surveillance, Domestic Institutions, and International Markets, April 3

03/44: IMF Executive Board Discusses the Enhanced HIPC Initiative Creditor Participation Issues, April 3

03/45: IMF Board Discusses Possible Features of a Sovereign Debt Restructuring Mechanism, April 3

03/46: IMF Reviews Experience with the Financial Sector Assessment Program and Reaches Conclusions on Issues Going Forward, April 4

03/47: IMF Concludes 2003 Article IV Consultation with Ecuador, April 7

03/48: IMF Concludes 2002 Article IV Consultation with Portugal, April 9 implementation, including any difficulties encountered in reaching decision and completion points, at our next meeting.

We noted that the present situation in Iraq poses significant challenges, with an urgent need to restore security, relieve human suffering, and promote economic growth and poverty reduction. We support a further UN Security Council resolution. We further note that engagement by the international community including the Bretton Woods institutions would be essential for sustained economic, social, and political development in Iraq, recognizing that the Iraqi people have the responsibility to implement the right policies and build their own future. The World Bank and the IMF stand ready to play their normal role in Iraq's redevelopment at the appropriate time. They will also monitor closely the impact of the conflict on all their members and stand ready to help and support those adversely affected. It is important to address the debt issue, and we look forward to early engagement of the Paris Club.

The next meeting of the Development Committee will be held in Dubai, United Arab Emirates, on September 22, 2003. ■

Agnes van Ardenne (left), Minister for Development Cooperation of the Netherlands, and Heidemarie Wieczorek-Zeul, Germany's Minister for Economic Cooperation and Development.

03/49: IMF Concludes Discussion on Prolonged Use of Fund Resources, April 9

03/50: Enhancing the Effectiveness of Surveillance: Operational Responses, the Agenda Ahead, and Next Steps, April 10

03/51: IMF Executive Board Reviews World Bank–IMF Collaboration on Public Expenditure Issues, April 11

Speeches

"Globalization, the Transition Economies, and the IMF," Thomas C. Dawson, Director, IMF External Relations Department, Seminar for Parliamentarians from Transition Economies, Vienna, March 14

"Transparency and the IMF—Toward Second Generation Reforms," Thomas C. Dawson, Director of IMF External Relations Department, Nordic and Baltic Monetary and Financial Committee, Tallinn, March 17

"The Need to Improve the Resolution of Financial Crises: An Emerging Consensus?" Anne Krueger, IMF First Deputy Managing Director, Harvard University Business School's Finance Club, Boston, March 27

Transcripts

Press Briefing by Thomas C. Dawson, Director, IMF External Relations Department, March 20 and April 3

Press Conference on *Global Financial Stability Report*, Frankfurt, Germany, March 27

Conference Call Press Briefing on the Analytic Chapters of April 2003 *World Economic Outlook*, Kenneth Rogoff, David Robinson, and Jonathan Ostry, IMF Research Department, April 3

World Economic Outlook Press Conference, April 9

Press Conference with IMF Managing Director Horst Köhler and First Deputy Managing Director Anne Krueger, April 10

Press Conference of the Intergovernmental Group of 24 on International Monetary Affairs and Development, April 11

Press Conference following the International Monetary and Financial Committee Meeting, April 12

IMFC Statements

Ian Campbell, Australia, April 12

John W. Snow, United States, April 12

John Manley, Canada, April 12

Rubens Ricupero, UNCTAD, April 12

Pedro Solbes, European Commission, April 12

Donald J. Johnston, Organization for Economic Cooperation and Development, April 12

Juan Somavia, International Labour Office, April 12

Caio Koch-Weser, Financial Stability Forum, April 12

Li Ruogu, People's Bank of China, April 12

Antonio Palocci Filho, Brazil, April 12

Geir H. Haarde, Iceland, April 12

Gordon Brown, United Kingdom, April 13

Nout Wellink, the Netherlands, April 13

Kaspar Villiger, Switzerland, April 14

Guy Quaden, Belgium, April 14

Masajuro Shiokawa, Japan, April 14

Hans Eichel, Federal Republic of Germany, April 14

Dato' Jamaludin Mohd Jarjis, Malaysia, April 14

James D. Wolfensohn, World Bank, April 14

Francis Mer, France, April 15

Aleksei L. Kudrin, Russian Federation, April 16

Communiqués

Group of 24 Communiqué, April 11

Development Committee Communiqué, April 13

Group of Seven statement

Strong and lasting recovery is essential

Following is the text of the statement of the Group of Seven issued on April 12 in Washington, D.C.

We met today at a time in which the world economy faces many challenges. In this light, we reaffirm our commitment to multilateral cooperation.

Growth in most of our economies has been subdued, though uncertainties have diminished. A strong and lasting recovery is essential for our own countries and for the world. To this end, we each commit to pursue sound macroeconomic policies that support sustained growth. In a low-inflation, low-interest-rate environment, there is potential for higher growth through productivity-enhancing structural reforms, and to buttress investor confidence through continued improvements in corporate governance practices, market discipline, and transparency. We will respond as needed to developments in the economic environment. We will continue to monitor exchange markets closely and cooperate as appropriate. We underscore the importance to global growth and poverty reduction of successful trade liberalization through the timely implementation of the Doha Development Agenda, notably in financial services.

At the Group of Seven meeting are (left to right) Giulio Tremonti, Italy's Minister of Economy and Finance; Francis Mer, France's Minister of Economy, Finance, and Industry; Masajuro Shiokawa, Japan's Minister of Finance.

We encourage all emerging market countries to pursue sound policies and to enhance their investment climates. These policies will help attract financial flows, importantly including foreign direct investment, to reduce external vulnerabilities and to support sustained growth. We welcome the strong macroeconomic policies and ambitious structural reforms that Brazil's authorities are implementing.

We reiterate our commitment to strengthen crisis prevention and resolution measures. We are pleased to see progress being made on each element of our action plan [see box, page 111] of last April, as detailed in the accompanying update. We will continue to work to further implementation in this area.

We reaffirm our strong commitment to combat terrorist financing and pledge to maintain the momentum we have achieved thus far. We will work with the Financial Action Task Force (FATF), the United Nations, and the international financial institutions to implement the work plan that we endorsed in February. We welcome the action plan of the IMF and the World Bank and are encouraged by the progress of the pilot program agreed with the FATF; we urge them to successfully carry forward this important initiative. We look forward to revised FATF recommendations by June, establishing an enhanced standard in the fight against financial crime.

We reaffirm our February commitment to address the challenge of global poverty and our support for the Millennium Development Goals and the Monterrey Consensus. Achieving these will require mobilization of greater financial resources by developed and developing countries. We will continue to focus on the goals and their financing, including facilities, with a view to progress by [the June 2003 Group of Eight Summit in] Evian. Aid is most effective in countries with sound policies, good governance, and an environment conducive to private sector–led growth. We reiterate our support for NEPAD [New Partnership for Africa's Development] principles. We will develop an approach for dealing with non-IDA [International Development Association] countries within the Paris Club for consideration at our May meeting. We also encourage developing countries, working with the World Bank, to integrate trade objectives as key elements of their poverty reduction strategy papers and Country Assistance Strategy lending programs.

We recognize the need for a multilateral effort to help Iraq. We support a further UN Security Council resolution. The IMF and the World Bank should play their normal role in rebuilding and developing Iraq, recognizing that the Iraqi people have the ultimate responsibility to implement the right policies and build their own future. It is important to address the debt issue, and we are looking forward to the early engagement of the Paris Club. ■

Progress in implementing Group of Seven action plan

Following is the full text of the Group of Seven's report on progress to date in implementing the action plan to strengthen crisis prevention and resolution.

In April 2002, we adopted an integrated action plan to strengthen crisis prevention and resolution measures designed to promote conditions for sustained growth of private investment in emerging markets. The progress made on each element of the action plan is set out below.

Surveillance and crisis prevention. Better information is key to sound economic analysis and improved pricing of risk, with a view to promoting more stable capital flows. In this regard, the IMF has made progress in deepening its surveillance capacity, including through the development of more robust debt sustainability analyses and greater focus on national balance sheets. The IMF and its Independent Evaluation Office have identified areas for further progress to make surveillance more comprehensive, independent, and accountable, including a fresh perspective in program countries and improved analysis of vulnerabilities. We urge the IMF to intensify its work in these and other critical areas, including currency mismatches, reporting progress to the 2003 Annual Meetings. To complement these measures, we support the presumption of publication of Article IV reports, Public Information Notices of relevant Executive Board discussions, program documents, and Reports on the Observance of Standards and Codes, especially for countries with IMF programs, while taking into account its impact on deletion and correction policy. Program documents for cases of exceptional access should always be published.

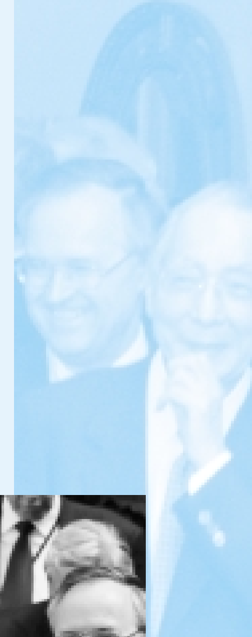
Access limits. Consistent with the need for greater discipline in the provision of official finance in crisis situations, we support the IMF Board's decision that normal access should be limited to 100 percent of quota in any one year and a cumulative total of 300 percent of quota. Lending under any facility, or combination of facilities, above these limits will be considered exceptional. Over the past year, the IMF has set out criteria and procedures to inform decisions and judgments for cases where exceptional access is contemplated. These stronger procedures, including early Board involvement and a separate report evaluating the case for exceptional lending, will be applied to any exceptional lending, even where the member is not experiencing a capital account crisis. We welcome the recent establishment of a strong presumption that only the Supplemental Reserve Facility will be used for any exceptional lending to address significant balance of payment pressures on the capital account. We also welcome the progress made in clarifying the IMF's policy for lending in cases where members are in arrears to their private creditors.

Code of conduct. In light of the growing interest in exploring a voluntary "code of good conduct," and since good investor relations are key to timely, orderly debt restructurings, we have instructed our officials to prepare a report, in consultation with issuers and the private sector, on these issues by our Fall meeting. We note that the IMF has already started to examine the concept, and we look forward to a progress report on its work.

Collective action clauses (CACs). We remain committed to promoting the early and widespread adoption of CACs. To date, experts from the private and official sector have made progress toward developing model clauses for use in sovereign bond contracts. We expect that Group of Seven countries will continue their leadership by adopting CACs in their own bonds governed by the laws of a foreign jurisdiction. Consistent with the policy of the European Union (EU) to introduce these clauses in new foreign bond issues, some EU members will start issuing bonds with such clauses this year. We welcome the leadership that Mexico has shown by including CACs in its successful bond issues under New York law.

Sovereign debt restructuring mechanism (SDRM). The extensive analysis and consultations undertaken in the course of the IMF's development of a concrete SDRM proposal have promoted a better understanding of the issues to be addressed in the more orderly resolution of sovereign debt crises. In view of the experience gained through the implementation of CACs and the interest in a code of conduct, and recognizing that it is not feasible now to implement the SDRM proposal, work should continue on issues raised in the SDRM discussions, such as aggregation, scope of debt, and intercreditor equity, that are of general relevance to the orderly resolution of financial crises.

U.S. Secretary of the Treasury John Snow (foreground) makes a point. With him (left to right) are Horst Köhler; Gordon Brown; Nikolaos Christodoulakis, Greek Minister of Economy and Finance, and President of the Eurozone; and Hans Eichel, Germany's Finance Minister.



Group of 24 communiqué

Ministers stress global uncertainty, potential need for special financing

Following is the text of the communiqué of the Group of 24, issued on April 11 in Washington, D.C.

Ministers of the Intergovernmental Group of 24 on International Monetary Affairs and Development held their sixty-ninth meeting in Washington, D.C., on April 11. Fouad Siniora, Minister of Finance, Lebanon, was in the chair, with Senator Conrad Enill, Trinidad and Tobago's Finance Minister, as First Vice-Chair, and Damian Ondo Mañe, Executive Director, IMF, representing Gabon, as Second Vice-Chair. The meeting of the ministers was preceded on April 10 by the eighty-first meeting of the Deputies of the Group of 24, with Alain Bifani, Director-General, Ministry of Finance, Lebanon, as Chair.

At the Group of 24 press conference are, left to right, Senator Conrad Enill (First Vice-Chair); Fouad Siniora (Chair); Ariel Buira (Director, Group of 24 Secretariat); and Alain Bifani (Chair, Group of 24 Deputies).

Global economic prospects

Ministers observe that, since their last meeting in September 2002, the global economic recovery has become much weaker than anticipated and the outlook remains highly uncertain. This uncertainty owes much to the widening global imbalances, the slowing growth in major advanced economies, the lack of progress in addressing structural problems in major economies, and the effects of the bursting of the asset price bubble. This situation has been exacerbated further by the war in Iraq, which will have serious implications, not only for Iraq and the neighboring countries, but is also likely to impact negatively on countries outside the region. Ministers urge the international community to be vigilant and stand ready to provide special financing to countries that may face significant burdens on their balance of payments and to mitigate risks associated with commodity shocks and the decline in tourism receipts and private transfers. They note that small states are often severely affected by these negative developments.

Ministers note that this increased uncertainty raises more fundamental concerns regarding the multilateral, cooperative, and institutional approach to international decision making, including those dealing with economic and financial governance. This approach is more critical today than ever, in light of the increased interdependence and the heightened global risks. Ministers call for a reaffirmation of this approach through a clear commitment by all countries and groups of countries, meeting in Washington, D.C., this week, to the shared economic, financial, and development goals, and to the actions necessary to achieve them.

Ministers are concerned about the continued sluggishness of domestic demand in major industrial countries, as evidenced by the stagnation of industrial production, the slowing down of world trade growth, the softening of labor market conditions, and the weak recovery of global fixed investment. They observe that the continued decline in global equity markets and fragility of investor confidence in international capital markets have turned emerging markets into net capital exporters and intensified the risks of a credit crunch. Ministers emphasize in this regard that a striking feature of the current international economic situation is that the United States has become the largest debtor and importer of capital.

Ministers share the concern of the Managing Director of the IMF that, based on current policies, the U.S. fiscal deficit will increase sharply over the coming years. The likely widening of the current account deficit could well lead to further diversion of resources from developing countries. A sharp fall in the dollar could induce a marked rise in interest rates, hindering the recovery of the U.S. economy with serious implications for the developing countries. Ministers view medium-term fiscal consolidation in the United States, together with demand expansion in the euro area, and a stronger pace of structural reform in both Europe and Japan, as critical to mitigating these risks.

Ministers note that developing countries have made significant progress in reforming their economies and in adopting sound growth-oriented policies. However, current global uncertainties and the resulting exchange rate volatility, the high instability of private capital flows, the slow pace of resolution of conflicts in several countries, the protracted decline in commodity prices, and the devastating effects of drought and disease in a number of sub-Saharan African countries are causes for concern.

Ministers express grave concern about the serious situation prevailing in Iraq in the wake of the war and the resulting humanitarian plight of the civilian population and the destruction of the country's physical and social infrastructure. They call on the United

Nations to address the situation in accordance with its charter, including the potentially large humanitarian needs of the Iraqi people and to contribute to the task of reconstructing the country following the war. Ministers also call on the international financial institutions to stand ready to play, in full coordination with the United Nations, a strong supportive role in Iraq, as well as in other affected countries.

Ministers welcome the reforms adopted by the Palestinian authorities to improve economic management in the Territories. At the same time, they remain deeply concerned about the situation in the Palestinian Territories. Ministers call on the international community to redouble its efforts to achieve a lasting peace and to help the Palestinian people to rebuild their infrastructure and institutions.

Against this backdrop of geopolitical uncertainties and rapidly changing conditions, Ministers call for the strengthening of the international cooperative effort. The major pillars of this effort should be (1) the establishment of a stable international economic and financial environment; (2) progress toward achieving the Millennium Development Goals; and (3) the advancement of the multilateral trade negotiations under the Doha Round, encompassing, in particular, the elimination of trade-distorting agricultural subsidies and domestic support schemes in advanced countries. Moreover, the international financial institutions should respond flexibly to the needs of member countries and provide the necessary support.

Private capital flows

Ministers observe that the troubling features of international financial markets are the high volatility and the declining trend in private capital flows to emerging market countries. As a result, several of these countries have become net capital exporters. Additionally, in order to protect themselves from the increasing volatility of capital markets and commodity price shocks, in the absence of predictable support from international financial institutions, a number of developing countries have increased markedly their stock of reserves at the cost of reduced domestic investment and financing for economic development. In line with the Monterrey Consensus, Ministers urge the international financial institutions, as well as official institutions in industrial countries, to implement measures aimed at promoting larger and more stable capital flows to developing economies and restoring confidence in international capital markets.

Crisis prevention and resolution

Ministers stress that, in order to be effective in crisis prevention, IMF surveillance should focus on core macroeconomic issues and be applied in a more even-handed manner. Given that industrial countries' policies have a major impact on the global economy, the IMF should review its policies with respect to the surveillance of industrial countries in order to enhance its effectiveness.

Ministers point out that, in addition to effective surveillance that encourages sound policies, crisis prevention requires predictable, timely, and adequate official financing, particularly from the international financial institutions, in support of member countries' reform programs. This would reduce the need to hold high levels of reserves and avoid excessive reliance on adjustment. Ministers underscore the role of IMF financing as a key benefit of membership, as established in the Articles of Agreement. They call on the IMF to develop an effective crisis prevention instrument that addresses the major shortcomings, which had discouraged the use of the Contingent Credit Lines.

Ethiopia's Finance Minister Ahmed Sufian (left), in discussion with Mohamed Kamel Amr, World Bank Alternate Executive Director for Egypt.

Ministers recall that several emerging market economies have expressed reservations about the proposed sovereign debt restructuring mechanism, while remaining open-minded on the incorporation of collective action clauses into new international sovereign bond contracts, as demonstrated by some developing countries. They reiterate their preference for voluntary, market-friendly approaches to debt restructuring, with due consideration to member country circumstances. They note the progress in the development of a voluntary code of good conduct for sovereign debt restructuring, and stress that it requires the full participation of developing countries.

Commodities

Ministers note that non-oil commodity exporters suffer from a secular downward trend in prices and are subject to severe price shocks. A World Bank study found that the cumulative negative effect of a typical large shock can approach 20 percent of GDP. They call on the IMF to review the terms and conditions of the IMF's Compensatory Financing Facility to make it more accessible and relevant for the current circumstances. Ministers recognize that the World Bank has done extensive work on commodity risk management arrangements. They urge that as a matter of

priority, the international financial institutions consider modalities of assistance and support to members faced with commodity price shocks.

Participation of developing countries in Bretton Woods institutions and SDRs

Ministers note with satisfaction that the need to enhance the voice of developing countries in the decision-making processes of the Bretton Woods institutions is now universally recognized, as was expressed in the Monterrey Consensus.

In this regard, Ministers reiterated their position that, in order to enhance the legitimacy of the IMF and the World Bank, the voice, participation, and voting power of developing countries in the decision-making processes of these institutions should be significantly strengthened through (1) a quota distribution that reflects correctly the relative economic position of these countries in the world economy; (2) a substantial increase in basic votes to restore their role in relation to total voting power at the inception of the IMF and the World Bank. Also, given that the size of the IMF relative to world output, trade, and capital movements has shrunk, Ministers call for a significant augmentation of the IMF's financial resources to strengthen its role. Consideration should be given to accelerating a review of the World Bank's capital base and share allocations.

Shaukat Aziz, Pakistan's Finance Minister, greets Chief Joseph Sanusi, Governor of the Bank of Nigeria.

Ministers reiterate their call for a general allocation of SDRs, which would assist in the recovery of the world economy and alleviate concerns about global deflation. They also urge those countries that have not done so to ratify promptly the equity SDR allocation under the Fourth Amendment of the IMF's Articles of Agreement, which was agreed to in 1998.

Implementing Monterrey Consensus and achieving Millennium Development Goals

Ministers reiterate their commitment to the Monterrey Consensus, which they see as a turning point in international economic cooperation and a signal of a new partnership in international economic relations based on consensus building.

Ministers point out that concrete actions have been taken to develop effective and cooperative follow-up processes on implementation of the consensus. However, they regret that progress in several key policy areas, including trade and official development assistance, has been weak or nonexistent, and in some cases, there have been backward steps. Moreover, Ministers believe that, based on the current trend, the Millennium Development Goals will not be achieved. They emphasize that their fulfillment requires a determined and sustained implementation of agreed strategies and partnerships by both developed and developing countries, as well as international financial institutions, in accordance with their commitment in Monterrey. Ministers note with concern the continuing downward trend in official development assistance flows, and call upon donors to step up their assistance efforts to reach the UN target of 0.7 percent of GNP and help reach the Millennium Development Goals.

HIPC Initiative and the PRSP process

Ministers note that substantial debt relief has been obtained by a number of countries under the Heavily Indebted Poor Countries (HIPC) Initiative. However, they regret that the Initiative is falling short of the objectives for which it was established. Ministers are concerned about the slow pace with which countries are progressing to their completion point, as well as with the difficulties faced by eligible countries to qualify for the Initiative. They reiterate their call for all creditors to participate and deliver their share of the agreed debt relief, with due consideration for the particular circumstances of developing countries and urge the provision of adequate resources for topping up operations. However, they are concerned that, even with topping up, many HIPCs will not attain sustainable debt positions. Ministers emphasize the need for the reexamination of the HIPC Initiative framework, including the underlying thresholds, projections, and the adequacy of resources to achieve debt sustainability at the completion point. They urge the international community to stand ready to assist countries beyond the completion point when their debt sustainability is threatened.

Ministers urge that consideration be given to addressing the debt sustainability of non-HIPC low-income countries and middle-income heavily indebted countries.

Ministers note the design and implementation of poverty reduction strategy papers (PRSPs) by low-income countries and urge for consistent support by donors and international financial institutions to implement them on a sustainable basis. However, they underscore the importance of aligning the

Poverty Reduction and Growth Facility and the PRSP approach to make the support more effective. Such alignment would not only strengthen countries' poverty reduction strategies but also enhance ownership and sustain policy implementation.

Trade

Ministers see trade as a powerful mechanism for developing countries to benefit from globalization and for poverty reduction and growth. They express grave concern over the continued failure of the Doha Round to address the issues of agricultural subsidies and generic drugs, and question the consistency of the above with the developed countries' commitment to the Monterrey Consensus. They call upon industrial countries to do more to open their markets, especially for agriculture, textiles, and clothing, to all developing countries and to eliminate tariff peaks and trade-distorting subsidies, nontariff barriers, and procedural impediments.

Ministers consider that the success of the upcoming World Trade Organization's Cancun Ministerial Conference is necessary for the sustained recovery of the world economy. The next meeting of the Group of 24 ministers is scheduled for September 20 in Dubai. ■

Extended Fund Facility arrangements are designed to rectify balance of payments problems that stem from structural problems.

Stand-By, EFF, and PRGF arrangements as of March 31

Member	Date of arrangement	Expiration date	Amount approved	Undrawn balance
			(million SDRs)	
Stand-By arrangements				
Argentina[1]	January 24, 2003	August 31, 2003	2,174.50	1,201.30
Bosnia & Herzegovina	August 2, 2002	November 1, 2003	67.60	36.00
Brazil[1]	September 6, 2002	December 31, 2003	22,821.12	15,215.07
Bulgaria	February 27, 2002	February 26, 2004	240.00	130.00
Colombia	January 15, 2003	January 14, 2005	1,548.00	1,548.00
Croatia	February 3, 2003	April 2, 2004	105.88	105.88
Dominica	August 28, 2002	August 27, 2003	3.28	1.23
Ecuador	March 21, 2003	April 20, 2004	151.00	120.80
Jordan	July 3, 2002	July 2, 2004	85.28	74.62
Peru	February 1, 2002	February 29, 2004	255.00	255.00
Romania	October 31, 2001	April 29, 2003	300.00	165.33
Turkey	February 4, 2002	December 31, 2004	12,821.20	2,892.00
Uruguay[1]	April 1, 2002	March 31, 2005	2,128.30	798.10
Total			42,701.16	22,543.33
EFF arrangements				
Indonesia	February 4, 2000	December 31, 2003	3,638.00	1,376.24
Serbia/Montenegro	May 14, 2002	May 13, 2005	650.00	550.00
Total			4,288.00	1,926.24
PRGF arrangements				
Albania	June 21, 2002	June 20, 2005	28.00	20.00
Armenia	May 23, 2001	May 22, 2004	69.00	39.00
Azerbaijan	July 6, 2001	July 5, 2004	80.45	64.35
Benin	July 17, 2000	March 31, 2004	27.00	8.08
Cameroon	December 21, 2000	December 20, 2003	111.42	47.74
Cape Verde	April 10, 2002	April 9, 2005	8.64	6.18
Chad	January 7, 2000	December 6, 2003	47.60	10.40
Congo, Dem. Republic of	June 12, 2002	June 11, 2005	580.00	160.00
Côte d'Ivoire	March 29, 2002	March 28, 2005	292.68	234.14
Ethiopia	March 22, 2001	March 21, 2004	100.28	31.29
Gambia, The	July 18, 2002	July 17, 2005	20.22	17.33
Georgia	January 12, 2001	January 11, 2004	108.00	58.50
Guinea	May 2, 2001	May 1, 2004	64.26	38.56
Guinea-Bissau	December 15, 2000	December 14, 2003	14.20	9.12
Guyana	September 20, 2002	September 19, 2005	54.55	49.00
Kenya	August 4, 2000	August 3, 2003	190.00	156.40
Kyrgyz Republic	December 6, 2001	December 5, 2004	73.40	38.24
Lao People's Dem. Rep.	April 25, 2001	April 24, 2004	31.70	18.11
Lesotho	March 9, 2001	March 8, 2004	24.50	10.50
Madagascar	March 1, 2001	November 30, 2004	79.43	45.39
Malawi	December 21, 2000	December 20, 2003	45.11	38.67
Mali	August 6, 1999	August 5, 2003	51.32	6.15
Moldova	December 21, 2000	December 20, 2003	110.88	83.16
Mongolia	September 28, 2001	September 27, 2004	28.49	24.42
Mozambique	June 28, 1999	June 27, 2003	87.20	16.80
Nicaragua	December 13, 2002	December 12, 2005	97.50	90.54
Niger	December 22, 2000	December 21, 2003	59.20	25.36
Pakistan	December 6, 2001	December 5, 2004	1,033.70	602.98
Rwanda	August 12, 2002	August 11, 2005	4.00	3.43
São Tomé and Príncipe	April 28, 2000	April 27, 2003	6.66	4.76
Sierra Leone	September 26, 2001	September 25, 2004	130.84	56.00
Tajikistan	December 11, 2002	December 10, 2005	65.00	57.00
Tanzania	April 4, 2000	June 30, 2003	135.00	15.00
Uganda	September 13, 2002	September 12, 2005	13.50	12.00
Vietnam	April 13, 2001	April 12, 2004	290.00	165.80
Total			4,163.72	2,264.38

[1]Includes amounts under Supplemental Reserve Facility.
EFF = Extended Fund Facility.
PRGF = Poverty Reduction and Growth Facility.
Figures may not add to totals owing to rounding.

Data: IMF Treasurer's Department

African finance ministers' press conference

Leaders fear Africa's problems will be forgotten

Gerald M. Ssendaula, Minister of Finance, Uganda.

Amid blaring headlines on Iraq, war, and reconstruction, several African finance ministers and a central bank governor held a press briefing on April 11 in Washington to remind the world that their continent's needs required urgent and continued attention. Charles Konan Banny (Governor of the Central Bank of West African States), Benjamin Radavidson (Madagascar), Timothy T. Thahane (Lesotho), Joseph B. Dauda (Sierra Leone), and Gerald M. Ssendaula (Uganda) reported on progress with the New Partnership for Africa's Development (NEPAD), highlighted pressing issues, among them market access, meeting the UN's Millennium Development Goals, and debt relief. They appealed to donors to attend to Afghani and Iraqi needs but not withdraw support for Africa's determined effort to reduce poverty.

"We are struggling, struggling for life," said Banny, as he and four African finance ministers called attention to key issues affecting their region, including the HIV/AIDS pandemic, famine in southern Africa, market access for agricultural goods, and debt relief. At the moment, however, the main issue on their minds was on whether resources originally committed to Africa would be diverted because of the conflict in Iraq. "My appeal to the main donors," Ssendaula said, "is that, while they should attend to the reconstruction of Afghanistan and Iraq, Africa is also in dire need of resources to get rid of poverty."

Benjamin Radavidson, Finance Minister, Madagascar.

At the same time, participants acknowledged that some of the problems facing African countries were caused by their own internal conflicts. "The conflicts in Liberia and Côte d'Ivoire have had very adverse effects on our own development plans," said Dauda. African countries need to do their part to resolve these internal problems, but the participants also stressed that development is a long-term process and sustained efforts will require the support of the international community.

Market access and infrastructure

Another concern was the slow progress being made in gaining access to industrial country markets for Africa's agricultural exports. "We are all working around the clock to ensure that we can really put commodities on the U.S. market," Ssendaula said, but that task remains a difficult one when, for example, countries like the United States subsidize their cotton farmers. Thahane pointed out that Africa's private sector could play a larger role in the development process, but it cannot do so without the infrastructure. Without roads on which to transport goods, and without power and telecommunications, the private sector's contribution is stifled and the potential for greater regional and intra-Africa trade is constrained. "The partners of our continent must help us support our efforts in building infrastructure so that there can be more integration among African economies," said Radavidson.

Recent World Trade Organization (WTO) discussions had made no progress in the areas of agricultural subsidies and trade barriers. Thahane hoped the forthcoming meeting in Cancun would yield better results. "There is no way we can achieve the [UN] Millennium Development Goals if we do not have sustainable access to markets," he said.

NEPAD progress report

There was strong interest on the part of reporters in Africa's assessment of the progress achieved since the June 2002 Group of Eight summit in Kananaskis, Canada. At that meeting, leaders committed themselves to an ambitious Africa Action Plan in support of the

Members' use of IMF credit

(million SDRs)

	During March 2003	January–March 2003	January–March 2002
General Resources Account	3,516.73	4,292.66	7,909.22
Stand-By	3,516.73	4,289.73	7,633.98
SRF	1,520.91	1,520.91	0.00
EFF	0.00	0.00	275.24
CFF	0.00	0.00	0.00
EMER	0.00	2.93	0.00
PRGF	116.97	116.97	116.13
Total	3,633.70	4,409.63	8,025.35

SRF = Supplemental Reserve Facility
EFF = Extended Fund Facility
CFF = Compensatory Financing Facility
EMER = Emergency assistance programs for postconflict countries and natural disasters
PRGF = Poverty Reduction and Growth Facility
Figures may not add to totals shown owing to rounding.
Data: IMF Treasurer's Department

New Partnership for Africa's Development (NEPAD). In exchange, African countries pledged to consolidate democracy and sound economic management. What distinguishes this initiative, the participants indicated, is that the African leaders themselves designed and will carry out NEPAD. "We see NEPAD as a tool for better integration of all African countries," said Radavidson.

When asked just what has been achieved since last year's Group of Eight summit, Thahane quipped "maybe the question should be put to the G-8 about what they are doing to undertake Kananaskis." Bilateral consultations between African countries and G-8 individual countries are ongoing, and "we are hopeful that there will be cooperation and that G-8 countries will come to the party and deliver on their promises," he said. For their part, Thahane added, African countries have made real progress. For example, 15 countries have agreed to be peer reviewed by other African countries. "This is a central point under which most of the developed countries are keen to buy into NEPAD," said Ssendaula.

But, Banny added, NEPAD is not just peer review. NEPAD also involves a series of projects and programs to promote Africa's development. A key factor in NEPAD is addressing peacekeeping needs, which, Thahane said, is a precondition for sustainable development. NEPAD also provides the platform for designing and implementing tools for determining countries' own goals, strengthening economic cooperation at the regional and global levels, and alerting the world that Africa is increasingly aware of it's problems and getting, as Ssendaula observed, "more mature and serious about solving its problems."

Millennium Development Goals

Africa and its donors can assess progress by asking whether countries are on track to meet the Millennium Development Goals. Is Africa faring well in this regard? Banny responded in the affirmative. One reason for holding this press conference, he said, was to get continuing assistance from the international community to reach these goals. But Thahane was less optimistic. As African countries look more carefully at their budgets, it is clear that the amount of resources available to meet the Millennium Development Goals is not sufficient. And serious issues like the HIV/AIDS pandemic and the famine in southern Africa threaten to reverse the development gains that Africa has made to date. Problems such as HIV/AIDS and famine have to be tackled first before governments can begin addressing longer-term goals.

Debt relief

Turning to debt relief, participants stressed that the IMF has a large role to play in ensuring that countries benefit from debt relief. But progress in this area, they also indicated, has been very slow. Only eight countries (seven of which are in Africa) have so far qualified for complete debt relief, and many are "stuck" and unable to qualify. Ssendaula reminded the press that some African countries spend as much as $80 out of every $100 they earn through exports on debt servicing. The debt is a severe problem, he noted, that needs to be addressed urgently.

Finally, Ssendaula appealed to developed countries to provide more assistance to Africa and called on them to participate more actively in the economies of the region. ■

Timothy Thahane (left), Lesotho's Finance Minister, with Joseph Dauda, Finance Minister of Sierra Leone.

Charles Konan Banny, Governor of the Central Bank of West African States.

The full text of the press conference is available on the IMF's website (www.imf.org).

Selected IMF rates

Week beginning	SDR interest rate	Rate of remuneration	Rate of charge
March 31	1.74	1.74	2.23
April 7	1.72	1.72	2.20
April 14	1.74	1.74	2.23

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 euro, the Japanese yen, the pound sterling, and the U.S. dollar, which constitute the SDR valuation basket. The rate of remuneration is the rate of return on members' remunerated reserve tranche positions. The rate of charge, a proportion 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.

General information on IMF finances, including rates, may be accessed at www.imf.org/external/fin.htm.

Data: IMF Treasurer's Department

World Economic Outlook

Tepid global recovery predicted, with normal growth resuming early 2004

The question of the hour is whether sputtering global growth will lunge ahead once uncertainty surrounding Iraq is resolved. The IMF's April 2003 World Economic Outlook, *reflecting concerns that a wider variety of risks are dampening prospects for a strong recovery, sees tepid growth of 3.2 percent in 2003, rising to 4.2 percent in 2004.*

Clearly, as the April 2003 *World Economic Outlook* (*WEO*) indicates, concerns over the potential war in Iraq, volatile oil prices, a drop in confidence, and skittish financial markets all weighed heavily on the global economy in the two months before the outbreak of war. *If* it is war jitters alone that are forestalling the recovery, *if* oil prices turn out to be significantly lower than the baseline assumption for the *WEO* projections, and *if* global productivity growth is even more robust than the *WEO* projects, the global economy could turn around more quickly, Kenneth Rogoff, Director of the IMF's Research Department, said in an April 9 press briefing. (The full text of the briefing is available on the IMF's website (www.imf.org.))

This is now more likely than it was before the war began, he added, but it would be a mistake to think that "it was just the war." A number of other risks also weigh on the outlook, including:

- the continuing unwinding of the equity price bubble;
- the emerging risk of a housing price bubble in some regions;
- financial imbalances around the globe, including the present patently unsustainable constellation of current accounts;
- structural weaknesses in Japan and Europe (especially Germany);
- continuing security concerns, which are obstructing globalization; and
- sundry further risks, including fragilities in emerging markets and the recent outbreak of Severe Acute Respiratory Syndrome (SARS).

Global security perceptions may not return to pre–September 11 levels for decades to come, Rogoff noted, which means higher insurance costs, weaker confidence, higher trade costs, and slower global economic integration. Ultimately the notion of "normal" global growth could fall from 4 percent to, say, 3.75 percent, though good policies, such as broad-based structural and institutional reforms, could counteract the security factor many times over.

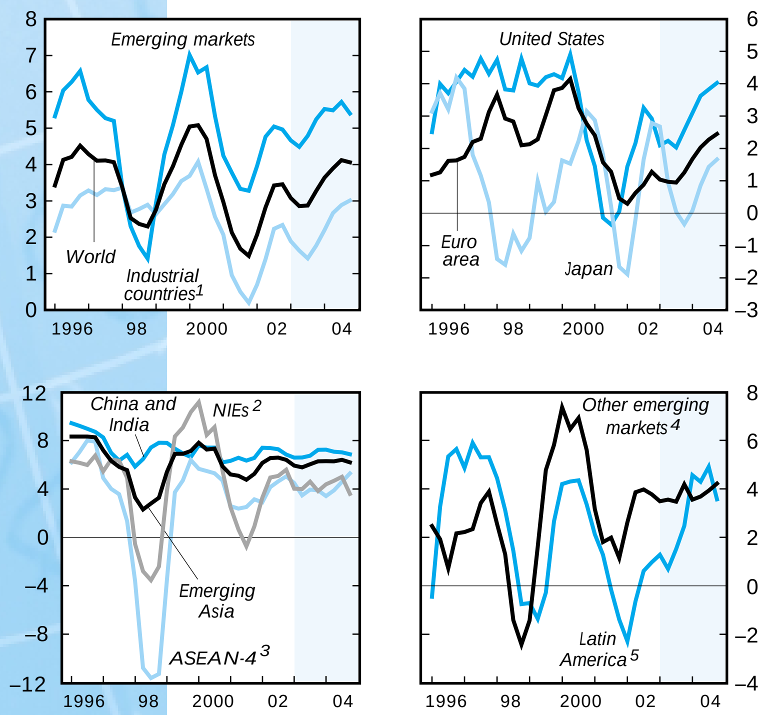
There are aspects of the security factor that are difficult to project or quantify but that might exact a real and long-term cost. In response to a reporter's question, for example, Rogoff explained that the United States might suffer economically more than the rest of the world if it becomes more difficult for foreign students to study in the United States and obtain work permits. Traditionally, many of these students stayed on to become very productive members of the U.S. economy. If that no longer occurs, there will certainly be a significant loss in terms of innovation and growth to the United States, though the countries of origin could benefit, since they would likely retain these students.

Regional outlooks lackluster

As for prospects in individual countries and regions, Rogoff noted that the United States, accounting for

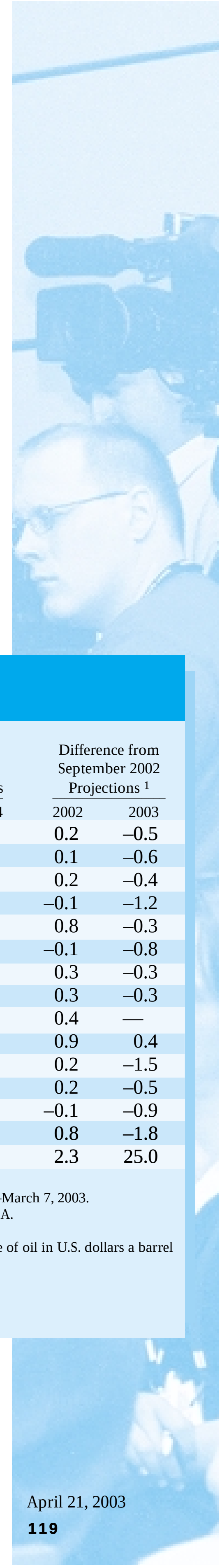
GDP growth will be weaker than expected

(Percent change from four quarters earlier)



[1]Australia, Canada, Denmark, euro area, Japan, New Zealand, Norway, Sweden, Switzerland, the United Kingdom, and the United States.
[2]Newly industrialized economies: Hong Kong SAR, Korea, Singapore, and Taiwan Province of China.
[3]Indonesia, Malaysia, the Philippines, and Thailand.
[4]Czech Republic, Hungary, Israel, Pakistan, Poland, Russia, South Africa, and Turkey.
[5]Argentina, Brazil, Chile, Colombia, Mexico, Peru, and Venezuela.

Data: Haver Analytics; IMF, *World Economic Outlook, April 2003;* and IMF staff estimates



just over one-fifth of global GDP, is projected to have 2.2 percent growth in 2003—not enough to make a meaningful dent in unemployment—and 3.6 percent growth in 2004. Growth in the euro area (which contributes about one-sixth of global GDP) is again lackluster at 1.1 percent in 2003 and 2.3 percent in 2004. Japan remains mired in a slump at 0.8 percent growth for 2003 and 1.0 percent for 2004. Emerging Asia is, in fact, the fastest-growing region of the world at 6.0 percent for 2003 and 6.3 percent for 2004, though the IMF does not view this recovery as self-sustaining if the rest of the world slumps and the incipient SARS epidemic takes a toll (reducing the projected growth rate by perhaps ¼–½ percent if the epidemic lasts for one quarter).

Transparent monetary policy needed

A change in the monetary policy communication strategy of major central banks is clearly needed, Rogoff said, adding that the time has come for the European Central Bank (ECB), the Bank of Japan, and the U.S. Federal Reserve to become more transparent about their inflation objectives. This would help central banks fend off deflation—already present in Japan and an outside risk in Europe and the United States.

In Japan, more aggressive monetary easing—still sorely needed—would be considerably more effective if anchored by a communication strategy stating that the Bank of Japan intends to end deflation soon and reiterating that it has the capacity to do so, Rogoff stressed. The risks to this strategy would be reduced, and the benefits magnified, if determined monetary easing were accompanied by comprehensive bank and corporate restructuring.

In Europe, a more transparent and more symmetric inflation target is desirable. As the ECB reconsiders its monetary strategy, it should also consider adopting a higher central target inflation rate of, say, 2.5 percent. A higher central inflation rate would reduce the likelihood of deflation prospects in weaker economies, currently Germany. If and when accession countries join the euro area, economic divergence will be even greater, and an even higher central inflation rate might be contemplated.

Finally, even acknowledging the consistent outstanding performance of the U.S. Federal Reserve, Rogoff said, it is hard to see the arguments for remaining less than completely transparent about its broad medium-term inflation goals. In the admittedly unlikely event deflation were to set in, having a communication strategy already in place would make reversing the process far easier, and substantially alleviate the need for the kinds of unconventional measures, such as the purchase of securities, now being vetted. And more transparency on inflation would alleviate anxiety over any eventual transition to a post-Greenspan era—a transition that Rogoff, for one, said he hoped would not come for a long time. Some central banks might view enhanced inflation transparency as placing them on a slippery slope toward rigid inflation targeting—which would indeed be less than ideal—but on balance, such risks are not high enough to justify continuing with the current communication strategies.

In response to a reporter's question, Rogoff explained that he proposes a 2.5 percent target in the euro area because the region is less integrated economically than, say, the United States. A monetary policy appropriate for the area as a whole might be quite deflationary for some of the weaker economies, especially if one includes the accession countries. That, then, argues for a slightly higher inflation target that would

Growth projections revised downward
(annual percent change)

			Current Projections		Difference from September 2002 Projections[1]	
	2001	2002	2003	2004	2002	2003
World output	2.3	3.0	3.2	4.1	0.2	–0.5
Advanced economies	0.9	1.8	1.9	2.9	0.1	–0.6
United States	0.3	2.4	2.2	3.6	0.2	–0.4
Euro area	1.4	0.8	1.1	2.3	–0.1	–1.2
Japan	0.4	0.3	0.8	1.0	0.8	–0.3
Newly industrialized Asian economies	0.8	4.6	4.1	4.5	–0.1	–0.8
Developing countries	3.9	4.6	5.0	5.8	0.3	–0.3
Africa	3.6	3.4	3.9	5.2	0.3	–0.3
Developing Asia	5.7	6.5	6.3	6.5	0.4	—
Middle East and Turkey[2]	1.4	4.5	5.1	4.9	0.9	0.4
Western Hemisphere	0.6	–0.1	1.5	4.2	0.2	–1.5
Countries in transition	5.1	4.1	4.0	4.1	0.2	–0.5
Russia	5.0	4.3	4.0	3.5	–0.1	–0.9
World trade volume (goods and services)	0.1	2.9	4.3	6.1	0.8	–1.8
Oil (U.S. dollars)[3]	–13.9	2.8	24.2	–19.4	2.3	25.0

Note: Real effective exchange rates are assumed to remain constant at the levels prevailing during February 7–March 7, 2003.
[1]Using updated purchasing-power-parity (PPP) weights, summarized in the *WEO* Statistical Appendix, Table A.
[2]Includes Malta.
[3]Simple average of spot prices of U.K., Brent, Dubai, and West Texas Intermediate crude oil. The average price of oil in U.S. dollars a barrel was $25.00 in 2002; the assumed price is $31.00 in 2003, and $25.00 in 2004.

Data: IMF, *World Economic Outlook, April 2003*

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minimize the risks of deflation across the euro area.

The IMF recommends more transparent inflation goals for all the major central banks, Rogoff said. With regard to Japan, it advises avoiding a narrow inflation target. Indeed, as Rogoff observed, it will be very difficult for Japan to hit the target of a narrow band for inflation. Getting out of the current situation where conventional monetary policy is ineffective and interest rates are zero is like being caught in a sand trap in golf, he said: "You have to hit the ball pretty hard to get it out of the sand trap. If you're Tiger Woods, you can get it on to the green in one shot, but most others might wander off a ways at first." A clear communication strategy by the Bank of Japan, however, would indicate what it would like the general range for inflation to be in the medium term and thus help anchor expectations.

Rogoff: more transparent inflation goals are recommended for all the major central banks.

Adjusting to getting old

As for fiscal policies, all the major industrial countries must come to terms with the implications of serious aging problems over the coming years, Rogoff said. Problems in sustaining pensions and health care will arise very soon in Japan and many countries across Europe. Given the current low birth rates, it is just not possible for people to go on indefinitely living longer and retiring earlier, happy though that image may be. For many industrial countries, age-related government expenditure is expected to rise by 5–10 percent of GDP between now and 2040, a number that swamps much current budget arithmetic. Raising the age of retirement has to be one piece of any solution, and implementing such a policy is as important as any measure most industrial countries could take toward medium-term fiscal sustainability.

Germany is in a difficult economic situation, Rogoff said, partly because of the ongoing costs of German reunification. Productivity differentials between east and west Germany had been closing initially but have not done so for several years. Now, major structural reforms are clearly needed, in particular labor market reforms. The recent initiatives of Chancellor Gerhard Schroeder are a step in the right direction.

A study in the April 2003 *World Economic Outlook* concludes that if labor market institutions in Europe, including practices such as unemployment insurance, benefits, and labor taxes, were brought to U.S. levels, unemployment in the euro area would fall by 3 percent and consumption and investment would rise by 5 percent. And if product markets were deregulated to U.S. levels, the gain in output effects would double to almost 10 percent. One could say, remarked Rogoff, that "the typical European worker is seeing five weeks a year of pay sucked into a black hole through these various inefficiencies."

U.S. tax cuts ill-timed

Asked to comment on pending proposals to cut U.S. taxes, Rogoff responded that the timing was awkward, given the open-ended nature of potential costs from the war in Iraq and Iraq's eventual reconstruction. He did, however, sympathize with the desire to eliminate double taxation of dividends, which over the long term might enhance growth. The United States is the greatest engine of economic growth in the history of the modern world, he added, but from the perspective of the global economy, more balanced demand—with continental Europe and Japan growing faster—is a better way to stimulate global demand than cutting U.S. taxes. If the tax cuts were accompanied, say, by planned expenditure cuts or some type of pension reform, such as the phasing in of higher retirement ages, the IMF's concern about the medium-term sustainability of the cuts would be much less. ■

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Copies of the *World Economic Outlook, April 2003*, are available for $49.00 ($46.00 for academics) each from Publication Services. See page 105 for ordering information. The full text of the *World Economic Outlook* is also available on the IMF's website (www.imf.org).

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