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Spring 2000 meetings

IMFC reaffirms benefits of open world economy, urges all countries to move ahead with poverty reduction strategies

International Monetary and Financial Committee Chair Gordon Brown (right) responds to questions at the joint press conference with IMF Acting Managing Director Stanley Fischer.

At its inaugural meeting in Washington on April 16, the International Monetary and Financial Committee (IMFC) strongly reaffirmed the benefits of a broader sharing of the opportunities of an open world economy and its strong support for the IMF's unique role as the cornerstone of the international monetary financial system. At the same time, the IMFC recognized that more needs to be done and pledged in its communiqué "to continue to work toward making the IMF more effective, transparent, and accountable." (For the text of the IMFC communiqué, see page 119.) The 24-member IMFC, which comprises finance ministers, central bank governors, and other officials of comparable rank and is representative of the entire IMF membership, replaced the Interim Committee in September 1999 (see *IMF Survey*, October 11, 1999, page 317).

Role of IMF

The meeting took place against the background of street demonstrations in downtown Washington and, as the Committee noted, "a growing public debate about the directions in which the IMF and the international financial system should evolve to adapt to a rapidly changing economic environment."

The IMFC's chair, Gordon Brown, the U.K. Chancellor of the Exchequer, speaking at a joint press conference with Stanley Fischer, Acting Managing Director of the IMF, said the meeting reaffirmed the high ideals that gave birth to the IMF and the World Bank more than fifty years ago: "the belief that prosperity around the world was indivisible; our belief that prosperity, to be sustained, has to be shared; and our belief that the way forward is not to turn the clock back on globalization or to retreat from global economic cooperation but to strengthen international economic coordination with one aim—that coordination and cooperation involving all can achieve prosperity for all."

Spring Meetings 2000 online

The IMF's website (www.imf.org) offers the full texts of official communiqués and statements, the transcripts of press conferences, and other materials related to the IMF–World Bank Spring Meetings 2000.

IMF financial operations

The IMFC agreed that the IMF's financial operations should continue to adapt to changes in the world economy, including the rapid growth and integration of capital markets. It endorsed the Executive Board's decision to simplify the range of IMF facilities by eliminating the Currency Stabilization Fund, support for commercial bank debt and debt-service reduction, the Buffer Stock Financing Facility, and the contingency element of the Compensatory and Contingency Financing Facility. It also asked the IMF Board to consider policies on existing facilities and, in particular, ways to enhance the effectiveness of the Contingent Credit Lines without compromising the initial eligibility criteria and to avoid unduly prolonged use of resources provided under Stand-By Arrangements and the Extended Fund Facility.

Outside the meetings, demonstrators call for an increased commitment to tackle global poverty.

In framing the principles that should underlie IMF financial support, Brown told the press conference that these should include "the need to preserve the IMF's ability to provide financial support to all member countries, the need to encourage countries to adopt strong measures to prevent crises, the importance of having countries respond quickly and effectively to crises, and, where balance of payments difficulties are expected to be of a longer-term nature, supporting reforms that deal with structural problems."

Safeguards and misreporting

While recognizing that there had been only a few episodes of misreporting of information to the IMF or allegations of misuse of IMF resources, the IMFC stressed that "such incidents are nonetheless extremely serious and undermine the trust that binds the IMF and its members, as well as public confidence in the IMF." It welcomed the Board's adoption of a strengthened framework to safeguard the use of IMF resources (see page 134) and stressed that "the forceful application of the strengthened framework is critical to enhancing the integrity of the IMF's financial operations."

The IMFC also welcomed the Board's decision to conduct safeguards assessments and the requirement that all countries making use of IMF resources should publish central bank statements that are audited in accordance with internationally accepted standards.

Private sector involvement

"We agreed on the importance of prevention as the first line of defense against economic crises," Brown said, "and noted that countries participating in international capital markets should seek to establish a strong and continuous dialogue with their private creditors." At the same time, it was agreed that the IMF has an important part to play in crisis resolution. In some cases, the IMFC said, a combination of official financing and policy adjustment should allow a country to regain full market access quickly. In some cases, emphasis should be placed on encouraging voluntary approaches. In other cases, a broader spectrum of actions by private creditors may be warranted.

In those cases where debt restructuring or debt reduction may be necessary, the IMFC agreed that "IMF-supported programs should put strong emphasis on medium-term sustainability and should strike an appropriate balance between the contributions of the private external creditors and the official external creditors, in light of financing provided by international financial institutions."

Surveillance

In welcoming the recent internal review of IMF surveillance, the IMFC noted that "progress is being made in adapting surveillance to changing global realities and to strengthening it in key areas, including financial sector issues and external debt and capital account developments." It also welcomed "the sharper focus on exchange rate policies and their consistency with underlying macroeconomic and other policies, and institutional arrangements."

The IMFC stressed the importance of countries adhering to international standards and codes of good practice in reducing their economic and financial vulnerabilities and recognized that the IMF's Article IV surveillance process was the appropriate framework within which to organize and discuss these issues. The communiqué observed that "IMF surveillance will be the principal mechanism through which the results of many initiatives under way in the IMF and elsewhere to strengthen the international monetary system will come together, including in the areas of standards and codes, financial system assessments, data provision, and transparency." In this regard, it welcomed the work done in the IMF, in collaboration with the World Bank and other entities, to encourage the adoption of standards and codes.

The IMFC reiterated the importance it attached to greater transparency and accountability in policymaking, which, Brown noted, have "an important part to play in the functioning of national economies." The Committee welcomed progress in the widespread release of Public Information Notices following Article IV consultations; the voluntary participation of 60 countries in the pilot program for the release of Article IV staff reports; the expanded publication of information on the IMF's liquidity position and members' accounts with the IMF; the publication of a wide range of policy documents; the publication, under a pilot study, of Reports on the Observance of Standards and Codes; and the release of the Board's Work Program.

Poverty reduction and HIPC

Brown stressed that, while the IMFC had noted the recent progress in implementing the enhanced Initiative for the Heavily Indebted Poor Countries (HIPC Initiative), "we urged all those with a stake in the debt initiative to work for faster and effective implementation, and for HIPC to be given the highest priority to ensure that as many countries as possible can reach decision points by the end of the year." In this connection, he said the Committee welcomed the setting up of a joint IMF–World Bank committee to facilitate implementation of the initiative and the poverty reduction strategies for the poorest countries.

"We urged all countries involved to move ahead as quickly as possible with the preparation of their poverty reduction strategies," Brown said. "In this way, the richest countries, to whom much has been given, have joined with the poorest countries, whose needs are the greatest, in this alliance to free millions of people from poverty."

The enhanced HIPC Initiative was also strongly supported by the Group of 24, representatives of the developing countries, which met on April 15. In its communiqué (see page 129), the group expressed its "deep concern at the insufficiency of bilateral contributions from donor countries for the HIPC Trust Fund." The group also called for a lowering of trade barriers to developing country exports and for full access to be granted for all exports from the least developed countries.

Development Committee

The Development Committee, chaired by Tarrin Nimmanahaeminda, Finance Minister of Thailand, met on April 17. In its communiqué (see page 124), the Committee noted that so far five countries had reached their decision points under the enhanced HIPC framework, bringing total committed debt relief to over $14 billion; up to 15 additional cases were likely to be considered this year by the Boards of the IMF and the World Bank. The Committee also noted progress in the poverty reduction strategy approach and urged the IMF and the Bank to work collaboratively with member countries and other development partners to develop full poverty reduction strategies. It called on developing countries to adopt outward-oriented reforms that would permit trade expansion to promote development and poverty reduction.

World Bank President James Wolfensohn (left) with the IMF Acting Managing Director Stanley Fischer outside the meetings.

The Committee endorsed the timely initiation of multilateral trade negotiations under the World Trade Organization that would address issues of most concern to developing countries. It emphasized that countries should ensure their efforts to expand trade are integrated into a comprehensive framework of development.

Addressing what it called "a severe danger to development progress itself," the Development Committee called for a "rapid intensification of international action on the global HIV/AIDS crisis." It encouraged "each actor in the international system to focus on its comparative strength" and called on the Bank and the IMF to take full account of HIV/AIDS in their support for poverty reduction strategies and the HIPC Initiative. ■

Köhler to take office on May 1

In its communiqué, the International Monetary and Finance Committee warmly welcomed the appointment of Horst Köhler as the new Managing Director of the IMF. It also expressed its deep gratitude to Acting Managing Director Stanley Fischer for his stewardship of the IMF in the interim.

Köhler has been serving as President of the European Bank for Reconstruction and Development. He will take office as IMF Managing Director on May 1.

IMFC press conference

Brown, Fischer respond to questions on IMF role, discuss progress on debt relief efforts

Following are edited excerpts from the joint press conference given by the chair of the International Monetary and Financial Committee (IMFC), Gordon Brown, and Acting Managing Director of the IMF, Stanley Fischer, on April 16, in Washington.

IMFC Chair Gordon Brown (right) and IMF Acting Managing Director Stanley Fischer at the joint press conference.

Brown: Our discussions today have been set against the background of continuing reform in the international financial system as we make decisions for a rapidly changing economic environment and are determined to ensure that the benefits of globalization reach all countries and, in particular, the peoples and the places that have too often been left behind.

This was the first meeting of the new International Monetary and Financial Committee, which succeeded the Interim Committee last year, and as we started we reaffirmed the high ideals and public purpose that gave birth to the World Bank and the IMF more than 50 years ago: the belief that prosperity around the world was indivisible; our belief that prosperity, to be sustained, has to be shared; and our belief that the way forward is not to turn the clock back on globalization or to retreat from global economic cooperation but to strengthen international economic coordination with one aim—that coordination and cooperation involving all can achieve prosperity for all.

In this context, we discussed, first, strengthening the IMF's role in the new global economy. We noted that the IMF had undergone continuous change to equip itself better to assist its member countries. We pledged to continue to work to make the IMF more effective, transparent, and accountable, strengthening its unique role as the cornerstone of the international monetary and financial system.

We agreed that the IMF's financial operations should continue to adapt to the changing nature of the global economy, including the rapid growth and integration of international capital markets. We set out a number of principles that should underpin this, including the need to preserve the IMF's ability to provide financial support to all member countries, the need to encourage countries to adopt strong measures to prevent crises, the importance of helping countries respond quickly and effectively to problems, and, where balance of payments difficulties are expected to be of a longer-term nature, supporting reforms that deal with structural problems.

In this light, we welcomed the progress that has been made to streamline and simplify the IMF's facilities. We also agreed that progress is being made in developing greater transparency through codes of conduct and new standards and in extending surveillance to the changing global realities and strengthening it in key areas. We agreed that the IMF's focus on financial vulnerabilities must be strengthened further, and we supported vulnerability analyses in IMF surveillance.

We recognized the importance of adherence to international standards and codes of good practice in reducing economic and financial vulnerabilities. We agreed that the IMF's Article IV surveillance provides the appropriate framework within which to organize and discuss these issues. We also recognized the possible need for technical assistance for countries to meet these relevant standards. Because we believe that greater transparency and surveillance are the key to preventing crises, we welcomed the work of the IMF and the World Bank in preparing reports on the observance of standards and codes and encouraging their adoption by a growing number of countries. We encouraged the IMF to continue its work in this area. We agreed that greater transparency in policymaking has an important part to play in improving the functioning of national economies. We welcomed the progress that has been made in publicizing the results of surveillance—the Article IV Public Information Notices.

We agreed on the importance of prevention as the first line of defense against economic crises and noted that countries participating in international capital markets should seek to establish a strong and continuous dialogue with their private creditors. And we agreed the IMF has an important part to play in crisis resolution and discussed the importance of involving the private sector in that process.

The Committee discussed this afternoon the Initiative to help the heavily indebted poor countries [HIPC Initiative]. We welcomed the recent progress that has been made in implementing the enhanced HIPC Initiative, which is aimed at faster, deeper, and broader debt relief. We urged all those with a stake in the debt initiative to work for faster and effective implementation, and that the HIPC Initiative be given the highest priority to ensure that as many countries as possible can reach decision points by the end of this year.

We welcomed the establishment of a joint World Bank–IMF Committee to facilitate implementation of the initiative and the poverty reduction strategies for the poorest countries. We urged all countries involved to move ahead as quickly as possible with the preparation of their poverty reduction strategies. In this way, the richest countries, to whom much has been given, have joined with the poorest countries, whose needs are the greatest, in this alliance to free millions of people from poverty.

The committee thanked the authorities for their action today. The committee also went on to record appreciation for the work of Michel Camdessus, who retired as Managing Director a few weeks ago. We welcomed the appointment of Horst Köhler, who will take over on May 1. We thanked Stanley Fischer, who is with me today, for the work he has done as Acting Managing Director, for which we are all grateful.

Question: *Mr. Fischer, can you describe the progress made today to try to forgive the $28 billion of debt relief of some of the poorest countries?*
Fischer: We had a very good discussion this afternoon on the Poverty Reduction and Growth Facility, and progress on the HIPC Initiative. The ministers reaffirmed their desire to move as rapidly as we can on debt forgiveness, while recognizing that antipoverty strategies must be in place before the debt relief happens, so that debt relief is well used for the purposes intended. They reaffirmed the need to ensure full financing of this strategy; as you know, the IMF still needs permission to use 5 million ounces of its gold to finance its contribution to the poverty reduction strategy.

Question: *Is there anything the IMF can do to ensure full participation in this initiative?*
Brown: The communiqué makes it absolutely clear that we reaffirmed the importance of the principle of full participation by all creditors. Indeed, we were unanimous in calling for faster and more effective implementation of the initiative to secure debt relief.

In the past few weeks, all Group of Seven countries agreed that, on a bilateral basis, they will go to 100 percent debt relief. Other countries have indicated that they are going to act in a similar way. This is indeed progress from where we were even as late as December last year. At the same time, we had information that $2.4 billion has been pledged to the World Bank Trust Fund. Obviously, we want more money to make the initiative possible, but a large number of countries have come forward since October to offer their help.To ensure that more countries get through the process, Stanley Fischer and World Bank President Jim Wolfensohn have also set up the Joint Implementation Committee.

Question: *You mentioned a focus on financial vulnerability and the importance of preventing future crises. What means can you employ?*
Fischer: The prevention discussion had two strands. One was surveillance and measures to help countries strengthen their economies—particularly their financial sectors, debt management, and macroeconomic policies and exchange rate policies. A lot can be done in the preventive mode, which we have begun and we will need to do more of, using objective indicators of vulnerability, for instance.

The other strand was a lengthy discussion of how to change our facilities so that we can use our financial resources to encourage prevention, particularly through the Contingent Credit Lines. The IMFC has asked the IMF's Executive Board to take another look at the Contingent Credit Lines to see if they can be made more usable as a crisis prevention device.

Question: *The IMFC communiqué says that the IMF should take appropriate steps to involve the private sector in forestalling and resolving crises. Can you say more?*
Brown: It is recognized that the IMF, working with the private sector, has an important role to play in crisis resolution. We discussed the approach adopted by the international community and agreed it should provide for flexibility to address diverse cases.

But there should be a framework of principles and tools to deal with these issues. We agreed that in some cases a combination of official finance and policy adjustment should allow countries to regain full market access, whereas in other cases a broader spectrum of action by private creditors may be warranted to provide for adequately financed IMF programs. We are very much a part of the discussion about engaging private and public sectors in a world of very big private financial flows and about looking at how best we can deal with problems as they arise.

Question: *How did the protest outside affect the meeting today?*
Brown: The meeting went on as normal. It started on time and was completed in the normal way. Our message to those who have been demonstrating is that the way forward for those who want to reduce poverty and see greater stability in the world and the diffusion of prosperity around the world is not to advocate turning our backs on the global economy and retreating from international economic cooperation. The way forward is through the strengthened international economic cooperation that we are now proposing with reforms in the international financial architecture. This is the best way to tackle poverty and injustices.

We are determined to move our poverty reduction strategies forward; we are determined to get as fast and as effective action as we can on debt relief. We are determined to reduce the risks from financial crises that are borne by the poor in so many cases, by creating a stronger system of crisis prevention and crisis resolution for the financial system.

The richest countries have joined with the poorest countries in this alliance to free millions of people from poverty.
—Brown

> **One reason we are strengthening our crisis response mode, as well as our crisis prevention mode, is that at some point we will have to deal with another crisis.**
>
> **—Fischer**

We came forward with further proposals for the reform of the international financial system. Almost the whole of our afternoon discussion was about poverty reduction strategies and the HIPC Initiative. It makes us determined to move ahead with the reform agenda for the international financial institutions, while ensuring that we are in a position to provide greater prosperity for all countries, particularly those people who have too often been left behind.

Question: *The South Summit in Havana called for an end to debt slavery, the establishment of fair trade practices, and restructuring of the work relationship between the IMF and the Bank. Can you comment? And, Mr. Fischer, whose permission is needed to sell the 5 million ounces of gold?*

Brown: We do want to see progress on the trade discussions, and we say that. We realize that that is important for the poorest countries. On the debt initiatives, the Group of Seven countries have now moved to bilateral relief of a full 100 percent. Many other countries are considering that; some have already announced it. But where we reduce debt and provide relief from debt interest payments, the money should relieve poverty. It should go to health, education, and antipoverty programs. That is why the poverty reduction strategy papers are so important.

Over the course of the next few months, the IMF and the World Bank and individual governments working together will try to remove all obstacles to debt relief and poverty reduction. That is a task we have set for ourselves as a result of these meetings today.

Fischer: On the 5 million ounces of gold, we need permission from the U.S. Congress to sell it.

Question: *Mr. Fischer, I understand the IMF will have a future role in the better surveillance of offshore centers. Will there be a blacklist of offshore centers, and who would issue it?*

Fischer: The Financial Stability Forum has proposed that the IMF undertake surveillance of the offshore centers, possibly through some sort of financial sector assessment. The IMF's Executive Board has not yet discussed this proposal. There would be complex issues in deciding whether to publish a blacklist before or after doing an assessment. There is a good case for not preparing blacklists before you have looked into the situation, but the IMF's Board will have to make that decision when it discusses the proposal.

Question: *Does the IMF now think that it could have handled the recent financial crises better? Looking forward, can we be sure that the new surveillance unit will be any better at predicting financial crises?*

Fischer: We published a reasonably full examination of the handling of the Asian crisis almost a year ago and have discussed it at great length with the member countries involved and with outside critics and advisors. The overall judgment is that the crisis was handled pretty well. The IMF now believes the slight fiscal tightening in the early stages of the crisis should have been avoided, and we should have gone to fiscal expansion pretty early, but we did do that after three or four months.

On whether interest rates should have been used to defend currencies, the consensus is that they should have been. Collapsing currencies leading to hyperinflation would have been far more destructive than what actually happened. The extraordinary recoveries in Asia—strongest in countries that actually followed IMF advice—are strong evidence that those strategies worked and worked well. One also needs to look at other crises, like the rapid recovery and turnaround in Brazil in 1999, which is under an IMF program.

I don't doubt that surveillance will be significantly better now, because of the much greater focus on the sources of vulnerability, like the financial sector, the composition of external debt, and what is happening to exchange rates. But I also know that you never know enough to prevent all crises, either because something unexpected happens or because warnings are not listened to. We should not delude ourselves that crises are over. There should be fewer of them. But one reason we are strengthening our crisis response mode, as well as our crisis prevention mode, is that at some point we will have to deal with another crisis.

Question: *Do you feel the IMF and the World Bank are unfairly carrying the can for a lot that is unfair in the world economic system? I refer specifically to the very high subsidies given to European farmers and the extremely high tariff barriers behind which European, U.S., and Japanese agriculture operates. Many of the poorest are farmers who would benefit directly if those barriers eased.*

Brown: We are doing what we can to contribute to the process of reducing poverty throughout the world, as well as making it possible for people to see economic development. We look for a virtuous circle of debt relief, poverty reduction, and economic development. We must continue to put the case for global economic cooperation against those who would fail to have that cooperation and, therefore, fail to have a solution to the crises that people face.

Fischer: Mr. Camdessus used to use the phrase "coherence in global economic plans." It would be more coherent at the time you are giving debt relief to also allow expanded access for the developing countries into industrial country markets, particularly for the very poorest countries. The IMF and others have recognized that this would help, with debt relief, to get growth going in the poorest countries. ■

IMFSURVEY

Participants welcome signs of economic recovery and progress on adapting IMF facilities

Following is the text of the communiqué of the International Monetary and Financial Committee of the Board of Governors of the IMF issued on April 16 in Washington.

The International Monetary and Financial Committee held its inaugural meeting on April 16, 2000, under the Chairmanship of Gordon Brown, Chancellor of the Exchequer of the United Kingdom.

Strengthening the IMF's role

The Committee's deliberations have taken place today against the background of a growing public debate about the directions in which the IMF and the international financial system should evolve to adapt to a rapidly changing economic environment. The debate also reflects a concern that the benefits the world economy is deriving from freer trade and more integrated and deeper international capital markets are not reaching everyone, especially in the developing countries. The Committee reaffirms its strong support for the IMF's unique role as the cornerstone of the international monetary and financial system and its ability, by virtue of its universal character, to help all of its members. With the support of all its members, the IMF has undergone continuous change to equip itself better to assist members to build the strong macroeconomic and institutional underpinnings required for international financial stability and the broader sharing of the benefits and opportunities of an open world economy. But more needs to be done, and the Committee therefore pledges to continue to work toward making the IMF more effective, transparent, and accountable.

World economic outlook

The Committee welcomes the rapid recovery of the world economy in 1999 and the prospect of even stronger growth in 2000. Global economic and financial conditions have improved markedly during the past year, with growth picking up in most regions of the world. Moreover, the acceleration of global growth has occurred without a significant increase in underlying inflation. This improvement has, in most instances, also reflected the pursuit of sound macroeconomic policies and continuing structural reforms in many countries, both advanced and developing. In particular, the committee notes the following:

• The expansion in the United States continues at a remarkable pace. Monetary and fiscal policies will need to remain prudent, and fiscal surplus policies should not be relaxed. National saving also needs to increase further.

• Growth has also strengthened in western Europe, and it is important that this be sustained. Monetary policy should remain supportive of growth through its focus on maintaining low inflation. Countries should also continue to pursue prudent fiscal policies. Stronger growth provides an opportunity to press ahead with the fiscal reforms necessary to ensure the long-term sustainability of public finances and to continue with further reforms of labor, capital, and product markets to ensure that the pace of growth is sustained.

• There are some positive signs in Japan. However, a durable economic recovery has yet to be secured, and deflationary concerns still remain. It is important that macroeconomic policies continue to be supportive until recovery in private demand is firmly established; structural reforms, especially through sustained financial and corporate sector restructuring, will be crucial in boosting confidence and paving the way for a return to sustained growth.

While welcoming the increases in oil production that will help stabilize oil prices and support continuing noninflationary growth in global output, the Committee notes that the current outlook is still vulnerable in several respects. In particular, substantial differences in economic performance continue to contribute to external imbalances. Against this background, the Committee stresses the importance of the policy priorities outlined above, which would help to promote a smooth transition toward a more sustainable and balanced pattern of economic growth.

At the meetings: (from left to right) Brazilian Central Bank Governor Arminio Fraga, Brazilian Finance Minister Pedro Malan, and IMF Executive Director Murilo Portugal.

The Committee notes that the strong performance in North America and the increase in growth in western Europe have provided a more supportive environment for growth elsewhere in the world:

• In Asia, China and India have continued to grow rapidly, and economic recovery in the crisis-affected countries has gained significant momentum. In most countries, macroeconomic policies should still be directed toward providing support for recovery. However, in the countries where recovery is most advanced, policies should turn to strengthening the conditions for sustainable growth. The Committee urges all countries to maintain the momentum behind their structural reform efforts.

• In Latin America, the downturn in 1999 was generally milder than initially foreseen, and signs of a broad-based recovery are already evident in the context of further declines in inflation. However, further fiscal consolidation remains a priority, especially in those cases where external financing requirements remain large.

Hans Eichel (left), German Finance Minister, confers with Jean-Claude Trichet, Bank of France Governor.

• Russia's economic performance has improved, with economic growth attributable in part to higher oil prices and the 1998 devaluation, as well as macroeconomic policies. Growth in Russia will be sustained only if major strides are made to strengthen institutions—especially the rule of law—and to create an attractive environment for domestic and foreign investors, thus tackling the issue of capital flight. Economic conditions are also strengthening in other transition economies.

• The recent recovery in oil prices and in some other commodity markets is providing support to many countries' own efforts in the Middle East and Africa. These countries have an opportunity to accelerate economic reforms and diversification. Other countries have performed less well for a variety of reasons, including inappropriate policies, unfavorable weather conditions, or continued conflict. The Committee encourages these countries to strengthen their adjustment efforts with the help of the international community.

The Committee reiterates the critical importance of open and competitive markets as a key component of efforts to sustain growth and stability in the global economy and to reduce poverty. Improving access to industrial country markets for products of developing countries will be crucial to support their reform efforts. The Committee welcomes the initiation of World Trade Organization (WTO) negotiations in agriculture and services and supports the early launch of a new round of multilateral trade negotiations, which would bring benefits to all countries, including the poorest. The Committee calls on the IMF to continue to work with the World Bank, the WTO, and other interested parties to improve the effectiveness of trade-related technical assistance and to build institutional capacity. It encourages the IMF to give appropriate emphasis to trade policy reforms in its policy advice to all its members, including under IMF-supported programs, and in country poverty reduction strategies.

Review of IMF facilities

The Committee agrees that the IMF's financial operations should continue to adapt to the changing nature of the global economy, including the rapid growth and integration of international capital markets. Against this background, the Committee welcomes the progress that has been made in reviewing the IMF's nonconcessional facilities. It endorses the Board's decision to simplify the array of IMF facilities by eliminating four facilities—the Currency Stabilization Fund, support for commercial bank debt and debt-service reduction, the Buffer Stock Financing Facility, and the contingency element of the Compensatory and Contingency Financing Facility—and by streamlining the Compensatory Financing Facility.

The Committee has set out a number of principles that should underpin this review, including the need to preserve the IMF's ability to provide and catalyze financial support to all member countries according to individual country circumstances and with due consideration of social implications. The IMF's facilities should encourage countries to adopt strong measures to prevent crises, including, where appropriate, observance of internationally agreed codes and standards and the maintenance of good relations with private creditors. The IMF must retain the ability to help countries respond quickly and effectively to short-run balance of payments problems. In defined circumstances where balance of payments difficulties are expected to be of a long-term nature, the IMF will also need to be able to support reforms that deal with structural problems, while encouraging countries to move toward sustainable access to, and reliance on, private capital. The IMF must also be able to respond rapidly and on an appropriate scale to crises of capital market confidence, and it should do so on terms that mitigate moral hazard and encourage rapid repayment. In this context, the IMF should take appropriate steps to involve the private sector in forestalling and resolving crises.

With these principles in mind, the Committee asks the Executive Board to continue its review of these issues and, in particular, to consider the policies on the maturity, pricing structure, and other aspects of existing facilities, with a view to ensuring that they provide the right incentives, in particular by enhancing the effectiveness of the Contingent Credit Lines—without compromising the initial eligibility criteria—and by avoiding unduly prolonged use of resources provided under the Stand-By Arrangement and the Extended Fund Facility. The Committee asks the Executive Board to secure rapid progress and to report at the Committee's next meeting.

Safeguards and misreporting

The Committee affirms that, while episodes of misreporting of information to the IMF or allegations of misuse of IMF resources have been few, such incidents are nonetheless extremely serious and undermine the trust that binds the IMF and its members, as well as public confidence in the IMF. The Committee therefore welcomes the Board's adoption of a strengthened framework of measures to safeguard the use of IMF resources, pursuant to the Interim Committee's call in September 1999, and to deter misreporting and misuse of IMF resources. The committee stresses that the forceful application of the strengthened framework is critical to enhancing the integrity of the IMF's financial operations.

The Committee especially welcomes the Board's decision to adopt the new framework for the conduct of safeguards assessments. It also welcomes the requirement that all countries making use of IMF resources will publish annual central bank financial statements that are independently audited in accordance with internationally accepted standards. The Committee also welcomes the decisions to broaden the application of tools for addressing misreporting when it comes to light, including by applying the Guidelines on Misreporting to prior actions and other essential information, lengthening the two-year limitation period, and making public the relevant information in cases of misreporting, in line with the Board's decision. It agrees that the effectiveness of this policy should be reviewed after 12 to 18 months.

Private sector involvement

The Committee underscores the importance of prevention as the first line of defense against crises. Countries participating in international capital markets and their private creditors should seek, in normal times, to establish a strong, continuous dialogue. Collective action clauses could have an important role to play in facilitating orderly crisis resolution.

The IMF has an important role to play with regard to crisis resolution. The Committee agrees that the approach adopted by the international community should provide for flexibility to address diverse cases within a framework of principles and tools and be based on the IMF's assessment of a country's underlying payment capacity and prospects of regaining market access.

In some cases, the combination of catalytic official financing and policy adjustment should allow the country to regain full market access quickly. In some cases, emphasis should be placed on encouraging voluntary approaches, as needed, to overcome creditor coordination problems. In other cases, the early restoration of full market access on terms consistent with medium-term external sustainability may be judged to be unrealistic, and a broader spectrum of actions by private creditors, including comprehensive debt restructuring, may be warranted to provide for an adequately financed program and a viable medium-term payments profile.

In those cases where debt restructuring or debt reduction may be necessary, the Committee agrees that IMF-supported programs should put strong emphasis on medium-term sustainability and should strike an appropriate balance between the contributions of the private external creditors and the official external creditors, in light of financing provided by international financial institutions. The Committee notes the need to aim for fairness in the treatment of different classes of private creditors and that private sector involvement should proceed on the basis that no class of creditors should be considered inherently privileged. The IMF should review the country's efforts to secure needed contributions from private creditors in light of these considerations, as well as medium-term sustainability. The responsibility for negotiation with creditors is placed squarely with debtor countries. The international financial community should not micromanage the details of any debt restructuring or debt-reduction negotiation.

The Committee agrees that the IMF should consider whether private sector involvement is appropriate in programs supported by the IMF. In this regard, the Committee also agrees on the need to provide greater clarity to countries about the terms and conditions of their programs. When all relevant decisions have been taken, the IMF should set out publicly how and what policy approaches have been adopted.

Review of surveillance

The Committee welcomes the recent internal review of IMF surveillance, which built on the June 1999 external evaluation. Progress is being made in adapting surveillance to changing global realities and to strengthening it in key areas, including financial sector issues and external debt and capital account developments. The Committee also welcomes the sharper focus on exchange rate policies and their consistency with underlying macroeconomic and other policies and institutional arrangements. Issues outside the traditional core areas of surveillance should generally be considered when they are likely to have a significant impact on macroeconomic and financial stability. The Committee urges that the IMF improve further its multilateral surveillance by taking account of international implications of national policies. The Committee notes the importance of the provision of comprehensive, timely, high-quality, and accurate information to the IMF in line with the Special Data Dissemination Standard and the General Data Dissemination System, and calls on the IMF to help and encourage members in adopting and meeting these standards.

The Committee agrees that the IMF's focus on financial vulnerabilities must be strengthened further, and supports vulnerability analyses in IMF surveillance. To this end, the Committee encourages the fur-

The Committee underscores the importance of prevention as the first line of defense against crises.

ther development and integration of indicators of country financial vulnerability in the IMF's ongoing surveillance and operational work; calls on the IMF, in collaboration with the World Bank, to complete promptly guidelines on sovereign debt management; and asks the Board to work further on how to incorporate into surveillance and technical assistance the work under way on the policy on official reserves.

The Committee welcomes the work of the IMF and the Bank in preparing Reports on the Observance of Standards and Codes and in implementing the pilot Financial Sector Assessment Program that could serve as the primary basis for enhancing the IMF's monitoring of the financial sector in the context of Article IV surveillance through Financial System Stability Assessments. It endorses the decision to continue the Financial Sector Assessment Program and expand the coverage to 24 countries on a voluntary basis for the coming year. The Committee looks forward to a report on the progress of these programs at its next meeting.

The Committee recognizes the importance of adherence to international standards and codes of good practice in improving the policy environment and in reducing countries' macroeconomic and financial vulnerability. It reaffirms that the adherence to such codes is voluntary. The Committee agrees that the Article IV surveillance process provides the appropriate framework within which to organize and discuss with national authorities the implications of assessments of adherence to standards and codes, and calls upon the Executive Board to agree on the modalities. The Committee also recognizes the possible need for technical assistance to help meet relevant standards. IMF surveillance will be the principal mechanism through which the results of many initiatives under way in the IMF and elsewhere to strengthen the international monetary system will come together, including in the areas of standards and codes, financial system assessments, data provision, and transparency. This will pose new challenges for the IMF, especially on how to draw on the work and special expertise of other institutions in its surveillance. In this regard, the Committee welcomes the work that has been done by the IMF—in collaboration with the World Bank and other relevant bodies—to encourage the adoption of standards and codes. It looks forward to the results of the pilot exercise on the preparation of Reports on the Observance of Standards and Codes, and encourages the publication of Reports on the Observance of Standards and Codes on a voluntary basis. The Committee encourages the Executive Board to continue its work on how to incorporate into surveillance the results of these various initiatives and looks forward to a review of progress at its next meeting.

Mohamed K. Khirbash (right), Minister of State for Finance and Industry for the United Arab Emirates, meets with IMF Executive Director A. Shakour Shaalan.

The Committee welcomes the progress made in the IMF and other forums in developing and strengthening standards and codes for data dissemination; for transparency in fiscal, monetary, and financial policies; for banking supervision; and for securities and insurance regulation. It urges the IMF to continue with this work, including through outreach activities, and with the provision of technical assistance.

The Committee takes note of the reports of the Financial Stability Forum Working Groups on highly leveraged institutions, offshore financial centers, and capital flows, and the report on standards and codes. It welcomes the work done by the Financial Stability Forum and requests the Executive Board to undertake an assessment of the recommendations relevant to the IMF.

Transparency and accountability

The Committee reiterates the importance it attaches to greater transparency in policymaking in improving the functioning of national economies as well as the international financial system. It also underscores the importance of enhanced transparency and accountability of the international financial institutions themselves. In this regard, the Committee welcomes continuing progress in a number of areas:

- the widespread release—currently in 80 percent of cases—of Public Information Notices following Article IV consultations and of letters of intent and other program documents underpinning IMF financial programs; and the issuance of chairman's statements following Executive Board discussions of the use of IMF resources;
- the voluntary participation of 60 countries (compared with the initial target of 20) in the pilot project for the release of Article IV staff reports;
- the expanded publication of information on the IMF's liquidity position, members' accounts with the IMF, and the IMF's quarterly financial transactions plan;
- the systematic publication of policy documents in a wide range of areas to encourage public comment and discussion;
- the publication, under the pilot study for the preparation of Reports on the Observance of Standards and Codes, of modules for 11 countries, and the modules for an additional 20 countries now under preparation; and
- the publication of the Executive Board's Work Program.

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

The Committee welcomes the decision by the IMF to establish an independent evaluation office, which will complement the IMF's ongoing internal audit and self-evaluation activities. It urges the Executive Board to agree on the terms of reference, structure, staffing, and operating procedures, and to report back to the Committee at its next meeting. The Committee looks forward to regular reports on the activities of the office to future IMFC meetings.

HIPC Initiative and poverty reduction and growth strategies

The Committee notes the recent progress in implementing the enhanced HIPC Initiative, which is aimed at providing faster, deeper, and broader debt relief and strengthening the link between debt relief and poverty reduction. It urges all those with a stake in the HIPC Initiative to work for faster and effective implementation and to give the HIPC process the highest priority, so that as many countries as possible can reach their decision points by the end of the year. The Committee welcomes the establishment of a World Bank–IMF Joint Implementation Committee to facilitate implementation of the HIPC Initiative and the poverty reduction strategy process. In this connection, it welcomes the decision to provide regular reports on progress in country cases to the two Executive Boards.

The Committee welcomes the progress made in developing country–owned poverty reduction strategies as the framework for IMF and World Bank concessional lending and for linking debt relief under the enhanced HIPC Initiative to concrete poverty reduction programs and growth strategies, so as to ensure that the resources freed are directed to key poverty reduction measures. The Committee urges all countries involved to move ahead as quickly as possible with the preparation of poverty reduction strategy papers in a participatory manner, integrating priority measures for poverty reduction and structural reforms within a growth-oriented macroeconomic framework.

The Committee reiterates that macroeconomic stability, transparent management of public resources, and good governance are essential for achieving sustainable growth and poverty reduction. The IMF has a critical role to play in helping countries adopt and implement appropriate macroeconomic policies. The Committee welcomes the clear delineation of the cooperative but distinct roles of the IMF and the Bank, and notes that the IMF will rely on the Bank to lead in helping countries to develop policies to combat poverty and improve social conditions.

The Committee reaffirms the importance of the principle of full participation in the HIPC Initiative by all creditors. In this respect, it calls on all bilateral creditors to play their part while recognizing the need for flexibility in exceptional cases. It stresses that debt relief can be effective only if it complements and reinforces sound policies implemented by HIPC countries and leads to an increase in resource flows. It welcomes the decisions adopted by the Executive Board, and the actions taken by many members, to ensure the financing for the IMF's participation in the HIPC Initiative and for the Poverty Reduction and Growth Facility. It encourages all members and multilateral institutions to complete this process as soon as possible.

U.S. Secretary of the Treasury Lawrence Summers (left) and Indian Minister of Finance Yashwant Sinha.

Tribute to Michel Camdessus

The members of the Committee unanimously pay tribute to Michel Camdessus for the vision, skill, and energy with which he led the IMF as Managing Director through 13 years of unprecedented challenges. Over this period, international monetary and financial cooperation was tested by the growing openness of the world economy, the rapid spread of market economy principles throughout much of the world, financial crises of unexpected virulence and scope, and the growing danger of marginalization of the poorest economies. Under his leadership, the IMF moved on many fronts—strengthening surveillance, launching greater openness and transparency, and introducing innovative financial facilities to help resolve the debt crisis of the 1980s and the financial crises of the 1990s and, through the establishment of the Enhanced Structural Adjustment Facility (now the Poverty Reduction and Growth Facility), to support and sustain the integration of the IMF's low-income members into the world economy. The members of the Committee wish to record their deep appreciation of Camdessus's many contributions, which were always marked by his personal enthusiasm and optimism and his characteristic blend of commitment to financial discipline with devotion to alleviating the hardships of the most vulnerable.

The Committee warmly welcomes the appointment of Horst Köhler as the new Managing Director and expresses its deep gratitude to Stanley Fischer for his stewardship of the IMF in the interim.

The next meeting of the IMFC will be held in Prague on September 24, 2000. ■

Development committee communiqué

Ministers stress importance of trade for poverty reduction and development

Following is the communiqué of the Development Committee, issued on April 17 in Washington.

The sixty-first meeting of the Development Committee was held in Washington on April 17, 2000, under the chairmanship of Tarrin Nimmanahaeminda, Minister of Finance of Thailand. The Committee's deliberations took place against the background of growing public debate about the appropriate roles of international institutions at a time when governments and people throughout the world confront the opportunities and rapid changes brought about by globalization. In their discussions of how to strengthen efforts to reduce poverty, to intensify the attack on HIV/AIDS, and to expand the benefits of trade to all countries, ministers emphasized the importance they attach to preserving and further strengthening the family of multilateral institutions as a powerful force for global progress, equity, and stability.

Thai Finance Minister Tarrin Nimmanahaeminda chaired the Development Committee.

Intensifying action against HIV/AIDS

Ministers emphasized that the HIV/AIDS epidemic, which has already infected about 50 million people, is not only a very serious public health concern and the cause of great human suffering, but a severe danger to development progress itself. Ministers recognized that HIV/AIDS weakens economic growth, governance, human capital, labor productivity, and the investment climate, thereby undermining the foundations of development and poverty reduction. Ministers noted that the epidemic now poses not only an acute danger to development in sub-Saharan Africa but also a rapidly growing threat in Asia and the Caribbean and a probable threat in many eastern European countries and elsewhere as well. As HIV spreads quickly, even countries with currently low infection rates cannot afford to delay strengthening anti-HIV/AIDS programs.

In view of this alarming situation, the Committee called for rapid intensification of international action on the global HIV/AIDS crisis. Given the urgency of prevention and the vast needs for care and treatment, the Committee stressed the importance of effective partnerships to encourage each actor in the international system to focus on its comparative strength. Ministers urged governments, international agencies, civil society, the media, and the private sector, including the pharmaceutical industry, to step up their efforts, building on experience gained in ongoing activities. They urged developing and transition countries to increase their political and economic commitment to combating HIV/AIDS, to address the epidemic on a multisectoral basis, to scale up programs to nationwide—and in some cases regional—scope, to strengthen the primary health care systems needed for effective delivery of services, and to provide more resources directly to local communities. The Committee encouraged industrial countries and international organizations to mainstream HIV/AIDS in their development programs and to devote increased financial and institutional resources on a scale commensurate with the scope of the crisis. Ministers recognized that support for capacity building is particularly important in addressing this long-lasting development problem.

Ministers welcomed the World Bank's expanded efforts against HIV/AIDS, in particular its active participation in the UNAIDS partnership, its new HIV/AIDS strategy for Africa, and its work with the Global Alliance for Vaccines and Immunizations. They urged the Bank to intensify its HIV/AIDS work on a global basis, focusing on its areas of expertise, and called on the Bank and the IMF to take full account of HIV/AIDS in their support for poverty reduction strategies and the HIPC [Heavily Indebted Poor Countries] Initiative.

Trade, development, poverty reduction

Ministers emphasized the critical importance of trade for development and poverty reduction. They noted that accelerated and sustainable growth is a necessary condition for reducing poverty and that more open economies tend to grow faster than closed ones; evidence suggests that substantial benefits could be gained from further liberalization of trade regimes in both developed and developing (including transition) countries. Ministers recognized that developed countries have much to do to improve market access for developing countries' exports (for example, agriculture, textiles). Developing countries need to implement appropriately sequenced outward-oriented reforms that will permit trade expansion to promote development and poverty reduction. Ministers noted that the majority of the poorest countries lag behind in their integration into the world trading system. Additional domestic and international reforms are needed, including special consideration of enhanced market access for these countries (for example, by extending comprehensive and predictable duty- and quota-free market access). Ministers also noted the potential of regional integration to help developing countries increase their share in global markets. Ministers strongly endorsed a timely initiation of WTO [World Trade Organization] multilateral trade negotiations that address, among other issues, those of most concern to developing countries.

Ministers emphasized that countries should ensure that their efforts to expand trade are integrated into a comprehensive framework for development that includes the necessary complementary reforms and investment in institutions, infrastructure, and social programs. Ministers endorsed the commitment of the World Bank and the IMF to use their programs to support these efforts, which are increasingly reflected in countries' poverty reduction strategies. Ministers reiterated their call on the Bank, the IMF, and the WTO to cooperate with other parties in developing effective programs of capacity building for trade, including through an improved Integrated Framework for Trade-Related Assistance for the Least-Developed Countries. The Committee urged the Bank to mainstream trade in its country assistance programs by providing greater financial and technical support to improve trade-related infrastructure and institutions, including building domestic capacity for trade policy and negotiations, and by undertaking a strengthened research program on, among others, trade barriers to developing country exports, the issues developing countries face in implementing the Uruguay Round agreement, and the complex links between trade and poverty.

HIPC

Ministers noted the progress made in implementing the enhanced HIPC framework endorsed by the Committee at its last meeting. Five countries—Bolivia, Mauritania, Mozambique, Tanzania, and Uganda—have thus far reached their decision points under this new framework, bringing total committed debt relief under the HIPC Initiative to more than $14 billion; moreover, up to 15 additional country cases could be considered by the Bank and the IMF Executive Boards this year. Ministers encouraged the governments of HIPC-eligible countries to continue to work closely with the Bank and the IMF and other partners in pursuing sound policies and delivering effective reform programs, so that the delivery of HIPC debt relief, and the related poverty reduction strategies, can move forward as swiftly as possible. The Committee welcomed the establishment by the Bank and the IMF of a joint implementation committee to facilitate effective implementation of the enhanced HIPC Initiative and the new poverty reduction strategy approach.

Ministers appreciated that participation in the enhanced framework had now been approved by the governing bodies of a majority of multilateral institutions, although they recognized that successful implementation of the initiative will depend upon the timely availability of adequate financing to meet their full debt relief costs. While these institutions were encouraged to utilize their own resources for this purpose to the greatest extent possible, ministers recognized that many multilateral institutions needed additional bilateral support on an urgent basis. Ministers welcomed donor pledges and commitments of resources, including those announced since September, and urged that these pledges be turned into actual commitments as soon as possible. They also recognized that even with these pledges, the initiative remains underfunded. Donors that had not yet done so were urged to make generous contributions to the HIPC Trust Fund. Ministers reiterated the need to ensure that debt relief does not compromise the financing from concessional facilities such as IDA [International Development Association]. Ministers also reiterated the importance of the principle that all bilateral creditors should participate fully in the provision of relief under the enhanced initiative, while recognizing the need for flexibility in exceptional cases.

Poverty reduction strategies

Ministers welcomed progress in implementation of the poverty reduction strategy approach. The Committee had endorsed this approach at its last meeting as a means to strengthen the link between debt relief—and external assistance more generally—and poverty reduction and to enhance the poverty focus of all Bank and IMF concessional lending. Ministers noted that many governments in low-income countries had begun to develop, through transparent and participatory processes, country-owned, comprehensive strategies that addressed key issues in tackling poverty, such as equitable growth, governance and corruption, and institution and capacity building. Ministers welcomed the steps taken by governments to develop and implement interim strategies that permit HIPC debt relief and concessional lending to be provided while governments prepare more comprehensive poverty reduction strategies.

Recognizing that this approach involves new ways of assisting low-income countries, ministers urged the IMF and the World Bank to allocate adequate resources to support the poverty reduction strategy paper process. The institutions were urged to continue to work collaboratively with member countries and other development partners to develop full poverty reduction strategies, integrated with macroeconomic and fiscal policies. These strategies should incorporate lessons learned as implementation proceeds, including concentration on a limited number of clear, realistic, and measurable performance targets and including those related to the international development goals. As poverty reduction strategies need to be mainstreamed, ministers emphasized they should be fully integrated into countries' budget cycles. They also emphasized the importance of increased efforts,

Countries should ensure that their efforts to expand trade are integrated into a comprehensive framework for development.

including both technical assistance and funding, to improve statistics and other data and the analytical skills at the country level needed to make the approach a success. Moreover, they encouraged bilateral and multilateral agencies to support governments in the preparation of their strategies. These agencies were also encouraged to participate in the discussion of the design of these strategies with the objective of increasingly aligning their assistance programs to these strategies as they are put in place, thereby strengthening donor coordination and reducing excessive burdens on developing country governments.

Commonwealth Secretariat/ World Bank Joint Task Force on Small States

Ministers welcomed the report to the Development Committee and its analysis of the special characteristics of small states that make them particularly vulnerable, while noting that a number of larger states shared some or all of the same characteristics. They noted the report's conclusions that tackling small states' development challenges will take a combination of correct domestic policy action, continued external assistance, and—where achievable—improvements in the external environment. They also noted the report's recommendation that the circumstances of small states should be taken into account in the policies and programs of the multilateral trade, finance, and development organizations. The Committee supported World Bank and IMF proposals for their future work programs on the issues of small states, as set out in the report, and agreed that these steps could make a valuable contribution in helping small states face their development challenges.

International financial architecture

Ministers welcomed the Bank's continuing contribution to global efforts to reduce the risk, and mitigate the impact, of future financial crises, noting that actions and policies that reduce vulnerability to crises also support successful development. The Committee welcomed the close collaboration that had developed between the Bank and the IMF on the program of financial sector assessments, the reports on the observance of standards and codes, and the work on debt management. Ministers encouraged the Bank to make systematic use of these assessments in designing, delivering, and mobilizing support for capacity building.

World Bank financial capacity

Ministers reviewed an updated report on this subject from the World Bank and confirmed that the Bank's finances remain sound. At the same time, ministers recognized that the Bank's financial capacity may at some point limit its ability to respond to future demands. Ministers requested management and the Executive Board to keep this subject under review and continue to report regularly to the Committee.

The Committee's next meeting is scheduled for September 25, 2000, in Prague, Czech Republic. ■

Group of Seven communiqué

Ministers underscore central role of IMF in context of changing global landscape

Following are excerpts from the statement of the Group of Seven finance ministers and central bank governors on April 15 in Washington.

Architecture issues

We exchanged views on the role and functioning of the international financial institutions. In the context of the changing global financial landscape, in particular the increasing importance of private global capital markets, it is appropriate for the international community to continue to examine the role and functioning of the international financial institutions. In this context:

• We underscored the central role of the IMF in advancing macroeconomic stability as an important precondition for sustainable global growth and emphasized the need for the IMF to continue to evolve to meet the challenges of the future. Our discussions of IMF reform highlighted a number of key principles and measures taken to date, as well as our aspirations going forward. In particular, we agreed that the IMF is a universal institution and must be transparent to the public and accountable to its members. It must work in partnership with all its member countries, based on their shared interests, to promote financial stability and growth. Crisis prevention and response should be at the core of the IMF's work, with IMF surveillance strengthened so as to foster strong policies, reduce countries' financial vulnerability to crisis, and encourage the implementation of internationally agreed codes and standards. IMF financial operations should be adapted to reflect better the realities of global capital markets—encouraging countries to take preventive measures to reduce vulnerabilities and providing temporary and appropriately conditioned support for balance of payments adjustment and medium-term finance, in defined circumstances, in support of structural reform while avoiding prolonged use. The IMF should take appropriate steps to involve the private sector in both forestalling and resolving crises, which should help promote responsible behavior by private creditors. The IMF must continue to provide concessional assistance for the poorest countries to foster macroeconomic and financial stability, with the aim of reducing poverty.

• We reaffirmed the critical role of the World Bank and regional development banks in carrying out their core mission of promoting development in developing and emerging market economies. Moving forward, we believe it is important to pursue reform of these institutions further to focus their activities on the following core objectives: supporting sound and comprehensive poverty reduction efforts and improving the effectiveness of development assistance; actively participating in the HIPC [Heavily Indebted Poor Countries] Initiative with the aim of reducing poverty and promoting growth in the poorest countries; enhancing their role in the provision of global public goods, particularly by the World Bank; focusing their efforts more tightly in emerging market economies on the key systemic and structural constraints to poverty reduction, including investing in human capital, leveraging private capital, helping to cushion the effects of exceptional shocks on the poorest and most vulnerable groups, and institution building, including in the financial sector. We recognize that a large number of the world's poor still live in these emerging economies and that Bank assistance in poverty reduction will continue to be critical to raising their standard of living. Achieving these objectives will require strong ownership by recipient countries based on the principles of good governance, effective coordination, and cooperation with other bilateral and multilateral donors as well as the IMF, and an enabling international environment. We asked our deputies to identify proposals for implementing these objectives in the World Bank and regional development banks.

We agreed to continue to work together and with the wider membership of the institutions on these core issues and look forward to exploring this agenda further.

We also agreed to continue our work to implement fully the wide range of measures to strengthen the international financial architecture endorsed at the Cologne summit [in June 1999], including promoting appropriate private sector involvement. Private external creditors, including bond holders, have contributed to the financing of several recent programs of policy reform and recovery. This has confirmed the importance of making operational the framework ministers laid out in their report to heads [of state] in Cologne, which provides for flexibility to address diverse cases within a framework of principles and tools. In this context, we agreed that the IMF should consider whether private sector involvement is appropriate in programs. The IMF should play a central role in deciding if private creditors should contribute to any program financing, while taking duly into account the specific circumstances of individual cases. The IMF should also review the results of the country's efforts to secure financing from private creditors. We agreed on the further steps to put this approach into operation.

Group of Seven finance ministers Kiichi Miyazawa (Japan), Giuliano Amato (Italy), Joaquim Pina Moura (Portuguese finance minister representing the European Union), Paul Martin (Canada), Lawrence Summers (United States), Gordon Brown (United Kingdom), Laurent Fabius (France), and Hans Eichel (Germany) meet at Blair House.

We welcomed the reports of the Financial Stability Forum Working Groups on Highly Leveraged Institutions, Capital Flows, and Offshore Financial Centers, as well as the Task Force on the Implementation of Standards, and agreed to promote progress in their implementation. We supported the recommendations for better risk management by highly leveraged institutions and their counterparties; better disclosure practices among financial institutions, including enhanced disclosure requirements for highly leveraged institutions and their creditors; improved oversight of creditor institutions; and enhanced national surveillance of financial market activity in view of concerns about systemic risk and market dynamics caused by highly leveraged institutions' activities. We will review these measures and their implementation to determine whether additional steps are necessary. We also welcomed recognition of the importance of managing country risks and, in this regard, urged prompt development of guidelines for public debt and reserve management, with special attention to the risk created by short-term foreign currency liabilities and taking account of countries' vulnerability to capital account crises, including those vulnerabilities arising from the liabilities of the private sector. We also welcomed the work on the potential threats posed to the international financial system by those offshore centers that do not adequately meet international standards. We support the identification of priority jurisdictions and the focus on improvements in transparency and international cooperation. We call on the IMF to play its part in implementing the various recommendations of the Financial Stability Forum Working Groups. Finally, we look forward to additional work by the forum on promoting regulatory and market incentives for implementation of standards, as well as further development of guidance on deposit insurance schemes.

Enhanced HIPC Initiative

We note the progress achieved in the implementation of the Cologne debt initiative and reaffirm the importance we attach to bringing countries quickly to the point where they can benefit from debt relief. We strongly support the efforts of HIPC countries to develop poverty reduction strategy papers, in the context of a sound policy framework. We look forward to further work to strengthen these strategies, so that the resources freed up by HIPC relief are used effectively to reduce poverty and boost economic growth. We urge the IMF, the World Bank, and eligible countries to cooperate closely to secure the implementation of the HIPC Initiative with the aim that the eligible countries reach their decision points by the end of 2000, in line with the Cologne target. It is critical to secure over time the needed financing for the enhanced HIPC Initiative. We welcome the progress that has been made in this respect, and note that some bilateral contributions to the HIPC Initiative have been made, including to the HIPC Trust Fund, but some require legislative approval. We call upon those international financial institutions that have not yet finalized the basis for their participation to do so quickly, including the maximum use of their own resources. We urge all bilateral creditors that have not yet done so to take action to deliver their share of debt relief under the Initiative as participation of all creditors is key to its success. We reiterate our willingness to actively contribute to the success of the enhanced HIPC Initiative and its more general goal of reducing poverty. To this end, we have committed ourselves to grant, on a bilateral basis, additional debt relief on top of that provided for under the HIPC Initiative by increasing to 100 percent the debt reduction on commercial claims eligible for treatment in the framework of the Paris Club. We urge other creditors to follow the same route. ■

Group of 10 communiqué

Ministers attach priority to balanced economic growth and strengthened financial systems

Following is the communiqué of the Group of 10 industrial countries, issued in Washington on April 16.

The finance ministers and central bank governors of the countries of the Group of 10 met on April 16, 2000. The meeting was chaired by Kaspar Villiger, the Minister of Finance from Switzerland. Ministers and governors took note of reports from Henk Brouwer, Chairman of the Deputies of the Group of 10; Mario Draghi, Chairman of Working Party No. 3 of the Organization for Economic Cooperation and Development; and Andrew Crockett, General Manager of the Bank for International Settlements.

Willem F. Duisenberg (left), European Central Bank President, and Andrew D. Crockett, General Manager of the Bank for International Settlements, were official observers at the meetings.

Ministers and governors took note of the favorable developments that had occurred since their last meeting. They agreed that low inflation, improvements in productivity, better risk management, sound financial sector supervision and regulation, and effective macroeconomic management have contributed to strong growth performance in many of the industrial countries. Against this background, they discussed systemic risks that could affect the Group of 10 countries. They considered the potential impact of macroeconomic imbalances and their adjustments. Emerging market countries with strong fundamentals are likely to weather large shocks more easily than those that have not yet successfully addressed underlying weaknesses in their economies. Ministers and governors noted that high priority should be attached to achieving balanced economic growth and to strengthening financial systems. Transparent economic policies are highly desirable, in that they help investors to assess macroeconomic prospects and to price risk appropriately.

Ministers and governors underlined the importance of implementing international codes and standards designed to strengthen financial systems and encouraged the IMF to move forward in its efforts to monitor the implementation of standards as part of its surveillance process. They welcomed the constructive role that the private sector had played in the resolution of some recent financial crises. They stressed the importance of the international community making operational a broad and flexible framework of principles and tools for involving the private sector in the resolution of crises. This framework would provide a prominent role for the IMF.

Ministers and governors welcomed ongoing efforts to improve the operation of the market for emerging market debt, including recent steps to promote the wider use of collective-action clauses in international sovereign bonds. In January 2000, the United Kingdom included a majority-action clause in its euro-denominated treasury note program. The clause had no discernible impact on price or liquidity. In February, the German authorities released a document stating that there are no legal impediments to the use of collective-action clauses in bonds issued under German law by foreign governments. In April, Canada announced that it would include collective-action clauses in its future foreign currency bond and note issues. Ministers and governors expressed the hope that wider use of collective-action clauses would contribute to the more orderly resolution of international financial crises. They also agreed on the importance of continuing dialogue among market participants and other efforts to develop practices that will contribute to more stable global financial markets.

Ministers and governors took note of the ongoing consolidation process in the financial sectors of many industrial countries. The number of bank and non-bank financial institutions is declining, the average size of financial institutions is increasing, and the range of financial services offered by individual institutions is changing. Ministers and governors welcomed the efforts of a working party on financial sector consolidation, established under their auspices, to understand the trends, causes, and policy implications of consolidation in the financial industry. The working party is expected to report to ministers and governors by the end of the year. ■

Group of 24 communiqué

Developing country representatives call for increased support for HIPC Initiative

Following is the text of the communiqué of the Group of 24 issued on April 15 in Washington.

Ministers of the Intergovernmental Group of 24 on International Monetary Affairs held their sixty-third meeting in Washington on April 15, 2000. Germán Suárez, President of the Central Reserve Bank of Peru was in the chair, with Ernest C. Ebi as First Vice-Chairman, and Dr. Habib Abu Sakr of Lebanon as Second Vice-Chairman.The meeting of the ministers was preceded on April 14 by the seventy-fifth meeting of the Deputies of the Group of 24, with Carlos Saito of Peru as Chairman.

Economic outlook, policy challenges

World economic and financial conditions improved during 1999, providing a favorable outlook for the continuation of the global recovery. While several emerging market countries have returned to a growth trajectory much faster than expected, significant risks, vulnerabilities, and constraints, as well as high levels of poverty and debt, persist in many parts of the developing world. In this context, excessive increases in short-term interest rates in major industrial countries may negatively affect global growth prospects and the cost of credit for the developing countries. Large fluctuations among the exchange rates of the major international currencies are a major source of vulnerability for developing countries. The current trade policy stance of industrial countries constitutes a major barrier to the growth prospects of developing countries.

Trade and poverty reduction

In order to help sustain global growth prospects and enhance poverty reduction efforts, progress must be accelerated on lowering barriers to developing country exports—especially granting full access for all exports from the least-developed countries. Developing countries must become more active partners in the next round of multilateral negotiations that confront real issues in "sensitive products," where they have a comparative advantage, in order to obtain substantial benefits from full market access and the reduction of trade barriers. Ministers emphasize the need for a well-sequenced and balanced approach toward the further integration of developing countries—particularly the poorest—into the global trading system. They are of the view that the World Bank and the regional development banks have an important role to play in capacity building and infrastructure development to further and accelerate that integration. The Bretton Woods institutions must continue to provide effective support in the research on trade barriers and to assist developing countries to increase their capacity to identify and defend their interests. Training officials to negotiate will ensure more adequate representation and increase ownership. Ministers also support the ongoing efforts by the International Task Force on Commodity Risk Management in Developing Countries, led by the World Bank, to develop ways to hedge against severe fluctuations in commodity prices.

Financing of the enhanced HIPC Initiative

Ministers strongly support the enhanced HIPC [Heavily Indebted Poor Countries] Initiative. They stress the importance of rapid implementation and of timely and adequate funding to ensure that the principles endorsed by the International Monetary and Financial Committee and the Development Committee in September 1999 are fully implemented. These principles require that debt relief be additional to the resources that otherwise would have been available for development finance; financial integrity of the multilateral financial institutions be protected; and burden sharing be fair and equitable.

Germán Suárez, President of the Central Reserve Bank of Peru, chaired the meeting of the Group of 24.

Ministers emphasize that the preparation of poverty reduction strategy papers in a participatory process is a demanding and time-consuming undertaking for HIPCs, which should not delay the provision of debt relief. In this context, they consider that the use of interim poverty reduction strategy papers should be sufficient to reach the decision point under the Initiative. They expect the Bank, the IMF, and the donor community to provide technical assistance and funding for the design and implementation of both the interim and full-fledged poverty reduction strategy papers.

Ministers express deep concern about the insufficiency of bilateral contributions from donor countries for the HIPC Trust Fund to finance the share of debt relief from the World Bank and other multilaterals. They caution that debt-service forgiveness granted by the International Development Association (IDA) to cover its own share of debt relief may compromise the future availability of IDA lending for HIPC and non–HIPC Initiative poor countries. More generally, slow legislative action on the part of industrial countries for the funding of the components of the Initiative is delaying their bilateral contributions, including for the transfer of the remainder of the investment income from gold transactions to finance the IMF's share.

Ministers note that the HIPC Initiative's funding arrangements shift a disproportionate burden of the cost of the Initiative to other developing countries, including other HIPCs and other poor countries. These arrangements also demand a substantial contribution from other multilateral organizations, which are encountering difficulties in financing their share of HIPC debt relief. In this context, ministers consider that, in order to secure the success of the Initiative, a strategy must be developed to address these problems—including through the provision of additional bilateral and multilateral grants to support contributions from such developing countries and regional institutions. Particular attention should be given to providing financial support that would allow the participation of those developing countries whose claims on HIPCs represent a high proportion of their GDP and exports.

Reform of the Bretton Woods institutions

Ministers welcome the debate within and outside the Bretton Woods institutions on the reform of the international financial system, which should focus on developing ways to increase further their effectiveness as key institutions for fostering sustainable economic growth and poverty reduction. They reaffirm the crucial importance of the cooperative nature of the Bretton Woods institutions, the universality of their memberships, and the principle of uniformity of treatment of their members. They stress that the principles contained in the Articles of Agreement of the Bretton Woods institutions and in the practices and policies that have evolved through experience should not be taken lightly.

Ministers express serious concern about proposals for the reform of the Bretton Woods institutions in ways that would deprive access to either IMF or World Bank Group resources for any group of members, and especially for the poorer members whose eligibility for other sources of assistance is dependent upon the catalytic role performed by the Bretton Woods institutions. They regard proposals for raising the cost of access to the Bretton Woods institutions' facilities as shifting the burden of resource provision from one set of developing countries to another. In this context, ministers have strong reservations about any significant shortening of maturities for IMF facilities that are provided in support of members experiencing balance of payments disequilibria of a structural character and that could not be corrected in short order. They call for further work on how the Contingent Credit Lines could be modified to improve incentives for their use through moderating their cost, reducing the potential risk of sending negative signals to markets, and simplifying procedures on their activation. Ministers underscore the importance for the Bretton Woods institutions of maintaining a range of instruments to address the needs of their diverse memberships.

The establishment of the Poverty Reduction and Growth Facility is an important step forward in continuing the IMF's proactive approach, together with the World Bank, in support of low-income countries. The renewed emphasis on country ownership of policies and a participatory approach to program design is welcome.

Ministers expect the IMF to continue to play a facilitating role in debt crisis management and to help in developing a cooperative framework of principles and procedures for the equitable negotiation of debt restructuring agreements when this becomes unavoidable.

Ministers are concerned about the increasing role being taken in international monetary and financial affairs by international forums—other than the Bretton Woods institutions—in which the representation of developing countries is limited. The work of these forums has a direct bearing on developing countries. Therefore, ministers urge that such issues should be considered within the Bretton Woods institutions, given their universal membership, and that agreements be reached in their decision-making bodies.

Ministers urge the Executive Boards of the Bretton Woods institutions to design a process for the selection of the Managing Director of the IMF and the President of World Bank that is transparent, involves the entire membership through the Executive Boards, and allows the selection of the best candidate from any part of the world.

Surveillance, standards, and safeguards

Ministers regard surveillance as one of the most important functions of the IMF. Effective surveillance must be exercised over all members and include the regional and international implications of the domestic policies pursued by the largest economies. Ministers call for stronger efforts at surveillance of the largest countries, with a view to enhancing policy coordination to reduce volatile movements in foreign exchange and other financial asset markets.

While they welcome the development of international codes, standards, and best practices, ministers consider that the scope of surveillance should not be extended to cover the observance of such standards and codes, which should remain a voluntary choice by each member. Ministers expect the Bretton Woods institutions and other organizations to be prepared to intensify technical assistance in their respective areas of competence to countries seeking to implement codes and standards.

Ministers recognize that transparency is crucial as a demonstration of ownership and for promoting accountability and good governance, attracting private capital flows to developing countries, and preventing crises. They also stress that transparency should uniformly apply to all players in the international financial system—developed and developing countries, private, public, and multilateral institutions alike. However, ministers emphasize that it is essential to safeguard the IMF's role as confidential and trusted advisor.

While noting that cases of misreporting to the IMF have been rare, ministers regard it as a serious matter—especially when it has been determined to have been deliberate. They consider the recent decisions on safeguarding the use of IMF resources to be acceptable. However, ministers propose that the IMF proceed with due caution in order not to jeopardize its relations with member countries. Parallel efforts should be made to provide technical assistance to improve the data collection and reporting capabilities of member countries.

Ministers reiterate that the IMF's financial support should not be based on the choice of any particular exchange rate regime, as long as the regime in place is based on consistent and sustainable macroeconomic policies.

Intensifying action against HIV/AIDS

Ministers express serious concern about the alarming pace at which the HIV/AIDS epidemic is spreading in different parts of the world, and they stress that it is not only a health hazard but also a serious threat to development. They urge the donor community, including the World Bank, to give highest priority to securing the required funding for HIV/AIDS programs.

Small states

Ministers take note of the Report of the Commonwealth Secretariat/World Bank Joint Task Force on Small States and they await its further consideration.

Other issues

Ministers welcome the work of the Preparatory Committee for the United Nations High-Level International Intergovernmental Event on Financing for Development. Ministers welcome the appointment of Horst Köhler as the Managing Director of the IMF and look forward to his leadership of the institution. They express their appreciation for the support that developing countries received from Michel Camdessus during his tenure. The Group of 24 ministers will meet again on September 23, 2000, in Prague, Czech Republic. ■

Photo Credits: Denio Zara, Padraic Hughes, Pedro Marquez, and Michael Spilotro for the IMF.

World Economic Outlook

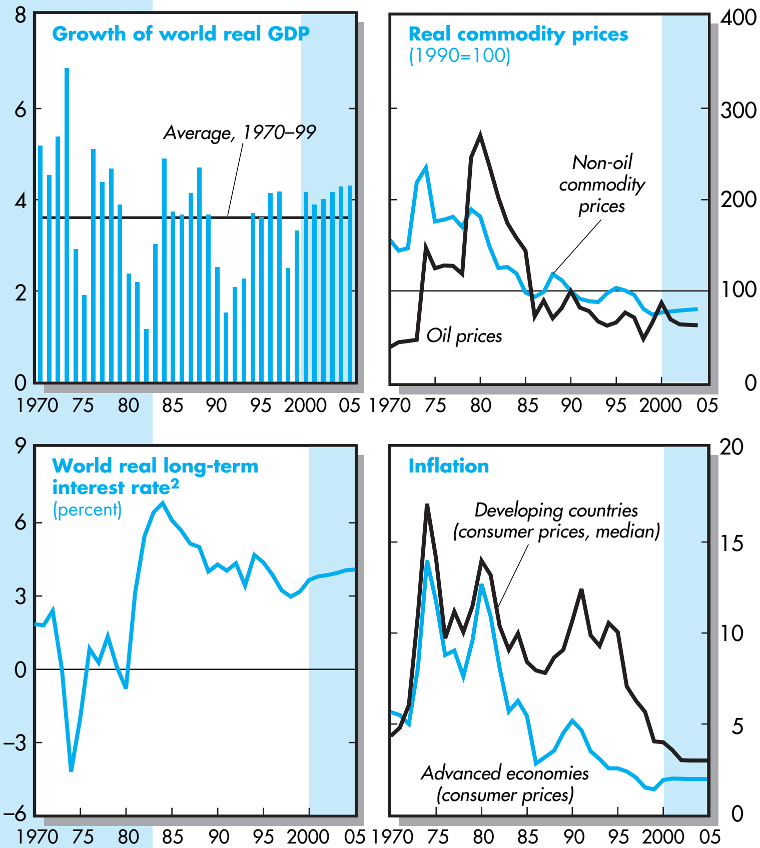
Report sees stronger recovery than anticipated but expresses concern at continuing imbalances

The economic recovery from the slowdown of 1997–98 has proved to be much stronger than anticipated, and global growth is now estimated at 3.3 percent in 1999, according to the IMF's latest *World Economic Outlook*. This new estimate represents a sharp upward revision from the projection of 2.2 percent made in December 1998. In addition, the world growth projection for 2000 has also been raised in the latest projections, to about 4¼ percent.

Global indicators

(annual percent change unless otherwise noted[1])

The world economy has continued to strengthen following the relatively mild slowdown in the wake of the emerging market crisis.



[1]Shaded areas indicate IMF staff projections. Aggregates are computed on the basis of purchasing-power-parity weights unless otherwise indicated.
[2]GDP weighted average of 10-year (or nearest maturity) government bond yields minus inflation rates for the United States, Japan, Germany, France, Italy, the United Kingdom, and Canada. Excluding Italy prior to 1972.

Data: IMF, *World Economic Outlook*, April 2000

Explaining the stronger growth forecasts, Michael Mussa, the IMF's Economic Counsellor and Director of the Research Department, told an April 12 press conference that the strong rebound "really testifies to the policy adjustments that were made in the major industrial countries to ease monetary policy and to the strong stabilization and reform efforts in a number of emerging market countries around the world."

Elements underlying growth

Mussa said that all areas of the world economy were contributing to the recovery and strong growth prospects. He explained how each region had performed:

- Performance in North America has been particularly strong, with the U.S. economy anticipated to turn in growth in the 5–6 percent range in the first quarter of 2000. Canada has also been doing well, and Mexico's economy accelerated at the end of 1999.
- In Latin America, the recession in Brazil turned out to be shorter and shallower than had been anticipated. Other economies, especially Argentina, began to recover in the latter part of 1999.
- There have also been remarkable turnarounds in Asia, with Korea recording growth close to 11 percent, and other economies also showing recoveries. Among the largest economies, China and India are expected to continue to perform strongly, with growth in 2000 projected at 7 percent and 6 percent, respectively.
- Africa has shown stronger growth, particularly in Nigeria and South Africa, the two largest economies.
- A strengthening of growth was also evident in Europe. Growth was projected to be relatively strong in Hungary and Poland, and to pick up in the Czech Republic. Russia had also turned to significantly positive growth, which was expected to continue at least through 2000.

Areas of concern

At the same time, the *World Economic Outlook* highlights a main concern stemming from "a series of economic imbalances that have been building for several years." According to the report, these include

- "the lopsided pattern of growth among the principal currency areas and the resulting increase in external imbalances, with the U.S. current account in record deficit and persistently large surpluses in Japan and, to a lesser extent, in the euro area;
- "the seemingly significant misalignments of several key currencies relative to what would be consistent with medium-term fundamentals, notably the strength of the dollar relative to the euro; and
- "the very high stock market valuations around the world . . . . Experience has shown that such asset price inflation can be particularly destabilizing, because it may encourage households and businesses to overconsume and overinvest, and because of the danger that the financial system may become vulnerable to an eventual downward correction in asset prices."

Regional developments

In discussing the continued expansion of the U.S. economy, the *World Economic Outlook* notes that, to date, the discrepancy between the growth of demand and supply has been reflected in a sharp widening of the external deficit rather than in inflationary pressures.The report also describes the significant rise in private borrowing (as a ratio of GDP) since the early 1990s. It goes on to note that "the process by which this widening of internal and external imbalances will ultimately be reversed is one of the major uncertainties facing the world economy. Every effort needs to be made to ensure that this occurs in an orderly manner (the so-called soft landing) rather than in an abrupt and discordant one (a 'hard landing')." The report recommends the U.S. Federal Reserve should move "progressively but prudently to a tighter monetary stance."

Regarding the Japanese economy, Mussa said at the press conference that "we think the Japanese economy is in a recovery mode and has been so since last year. But that recovery has been particularly weak in terms of private demand, with consumption spending clearly weakening in the second half of last year. Business investment spending, though, has turned around, and I think the Japanese economy is on the path to recovery."

Among the three largest economies of the euro area, the *World Economic Outlook* observes, "growth remains quite strong in France, and recovery is now under way in Italy and Germany." At the same time, the report adds, "the momentum of activity seen in the larger economies continues to differ markedly from the much more rapid expansion in the smaller euro area countries," where growth in some economies has been associated with rapid increases in asset prices, raising questions about whether current price levels are sustainable. In the case of the United Kingdom, the report said that further upward interest rate adjustments may be needed to contain inflationary pressures and cautioned that it is important for fiscal policy not to add to these pressures.

Special issues

Flemming Larsen, Deputy Director of the Research Department, told the press conference that the *World Economic Outlook* also included coverage of three special issues.

Asset prices and the business cycle. The report addresses the question of what drives asset prices, the channels through which asset prices affect aggregate demand and activity, and the situations in which run-ups or falls in asset prices are so worrisome that policymakers need to respond.

Plight of the poorest countries. The report analyzes the reasons for the growing gap between the poorest and the richest countries. The persistence of this gap "is arguably one of the greatest economic failures of the twentieth century," Larsen said. He explained that this chapter discusses the need for substantial reductions in debt burdens. It also addresses the need to raise economic growth—this being the most critical requirement to reduce poverty. For the advanced countries, the chapter emphasizes the importance of both reversing the downward trend in official development aid and reforming those trade policies that disadvantage the poorest countries. "More generally," Larsen said, "integrating the poorest countries into the global economy clearly is a critical part of the solution. The current backlash against globalization on the argument that it hurts the poor is inconsistent with the experience of the successful emerging market countries in southeast Asia."

At the WEO press conference: Michael Mussa, Director of the IMF Research Department; Flemming Larsen, Deputy Director; and Tamim Bayoumi, Division Chief.

Lessons from the economic achievements of the twentieth century. This chapter describes trends in global growth and income distributions, the impact of technological change, developments in the international monetary system, the changing role of the public sector, and some of the remaining challenges facing the international economy.

Addressing the issue of poverty, Mussa said that "the principal responsibility must rest with the countries, the societies themselves. The international community—and here I would include the international financial institutions as key players but not the only players—also plays an important, though necessarily secondary, role."

Asked to explain the reasons for the downturn in official development assistance that is identified in the report, Mussa said that "to correct the downtrend in official development assistance, the action that is clearly required is action by the advanced industrial countries, and I think particularly the United States."

Concerning the recent rise in world oil prices and its impact on projections, Tamim Bayoumi, Chief of the World Economic Studies Division in the Research Department, explained: "If you look at the futures market, the medium-term prediction of where oil prices would be stayed relatively stable compared to the spot price, and therefore, our prediction of falling oil prices is, in fact, based on these market predictions." ■

The texts of both the *World Economic Outlook* and Michael Mussa's press conference are available on the IMF's website (www.imf.org). The print edition of the *World Economic Outlook* will be available in May and may be obtained from IMF Publication Services.

Public Information Notice

IMF adopts two-stage approach to strengthen safeguards on use of its resources

Reliable information is essential to every aspect of the IMF's work.
—Fischer

On March 23, 2000, the IMF Executive Board concluded discussions on IMF policies, procedures, and remedies for addressing the misreporting of information to the IMF and proposals for strengthening safeguards on the use of its resources.

At the conclusion of the Board's discussion, Stanley Fischer, Acting Managing Director, summarized the policy discussions. An edited version of Fischer's remarks follows. The full text of Public Information Notice 00/28 can be found on the IMF website (www.imf.org).

"Reliable information is essential to every aspect of the IMF's work—surveillance, financing, and technical assistance—and is particularly important in ensuring that the IMF's resources are used for their intended purposes. The IMF depends on its members to provide the information needed and to use the IMF's resources for the purposes envisaged.

"While known incidents of misreporting and misuse of the IMF's resources have been rare, many Directors noted recent instances involving allegations of misuse of IMF resources and cases of misreporting . . . and agreed that these events further underscore the need to strengthen the IMF's existing safeguards on the use of its resources.

"Directors noted the importance of the safeguards already in place—in particular, program design; conditionality and monitoring; the availability of technical assistance; the transparency and governance initiatives, including the establishment and monitoring of codes and standards; and the recent use of special audits and the SDR-account mechanism. They stressed that these areas of IMF operations should continue to play a central role in promoting public sector integrity and accountability.

"Directors also welcomed the opportunity to consider an approach to assessing the adequacy of member countries' framework of safeguards that could help to prevent the possible misuse of IMF resources and misreporting of information. The Board has decided on a number of steps to strengthen key aspects of the IMF's framework.

Safeguards

"Directors generally concurred that a two-stage approach could strengthen existing safeguards by assessing a central bank's compliance with a series of desirable practices, rules, and regulations for internal control procedures, financial reporting, and audit mechanisms. These assessments are intended to provide reasonable assurance to the IMF that the central bank's control, accounting, reporting, and auditing systems in place to manage resources, including IMF disbursements, are adequate to ensure the integrity of operations.

"Directors generally endorsed the framework for the conduct of safeguards assessments and, in particular, the focus on member countries' central banks. They agreed that the safeguards framework would include an assessment of the accountability and transparency of foreign reserves management operations assumed by agencies outside the central bank, which is sometimes the case when the fiscal agent for the IMF is not the central bank.

"Directors endorsed the proposal that central banks of member countries making use of IMF resources publish annual financial statements independently audited by auditors external to the central banks in accordance with internationally accepted audit standards.

"In the first stage of the assessment, the authorities of a member seeking a new IMF arrangement would be expected to furnish the IMF with certain documents (see box, page 135) as early as possible and permit IMF staff to hold discussions with their independent auditors. The staff would review this information to arrive at a preliminary judgment about the adequacy of the central bank's internal control systems, reporting, and internal and external audit mechanisms.

"Directors supported the view that if, based on this information, the central bank's control, reporting, and auditing mechanisms are considered to be adequate for safeguarding IMF resources, no further steps would be undertaken. In other cases, and as a second stage, an on-site review would be undertaken. For the second stage, Directors considered that multidisciplinary teams were needed, including experts from central banks and private accounting firms. They generally concurred that the teams should be led by [IMF] staff to ensure consistency of the approach and to help achieve a continuous improvement of the assessment methodology.

"Directors considered that the introduction of safeguards assessments requires a differentiation between new and current users of IMF resources. For IMF arrangements approved after June 30, 2000, two requirements would be applied: member countries' central banks would be subject to the two-stage assessment approach, with the expectation that in many cases the first stage would suffice; and, as part of the safeguards, central banks would publish annual financial statements independently audited by auditors external to the central banks in accordance with internationally accepted audit standards.

"For arrangements in effect before June 30, the two-stage assessment approach would not be applied. However, the audit arrangements in place at central banks would be assessed to determine whether the central banks publish annual financial statements independently audited by auditors external to the central banks in accordance with internationally accepted audit standards. Members with possible disbursements subject to program reviews after September 30, 2000, would be required to furnish the IMF with the documents listed in the first three bullet points three months before the first program review after September 30, 2000. The staff would review this information to assess the adequacy of the external audit arrangements and report its findings to management. Where improvements were deemed necessary, these and the authorities' response would be reported to the Board in the documentation for the first program review after September 30, 2000.

"Most Directors expressed the view that safeguards assessments should be carried out on an experimental basis and that a review of the IMF's experience with this approach should be undertaken with the involvement of the outside panel of experts within 12–18 months.

Framework for addressing misreporting

"Directors noted that, while the provision of information to the IMF must continue to be based fundamentally on trust, it should also be governed by a clear set of rules. Many Directors stressed that intentional and unintentional misreporting can have different implications, while others noted that in practice it was often very difficult to make a clear determination between the two. Directors also noted that the application of the rules governing cases of misreporting must take into account the vast differences in capabilities among the IMF's 182 members.

"It was generally agreed that the IMF should publicize cases of misreporting. Many Directors were of the view that this should be the normal expectation only in cases in which misreporting was determined to be intentional. However, as noted by many Directors, the question of intent is often not clear-cut.

Data handling in the IMF

"Directors noted that the IMF's procedures for gathering and using information are generally among the institution's strengths, as the process of assembling information to form an overall assessment of the economic situation provides the opportunity to cross-check, question, and refine the information initially received. They also noted, however, that there are some areas in which the IMF's procedures could be made more effective, including by applying existing best practices more consistently throughout the institution. They therefore support the steps being taken by the staff in this regard. Directors noted, in particular, the staff's ongoing work to strengthen procedures for setting performance criteria by highlighting the most effective and comprehensive definitions of performance criteria with a view to providing models for new arrangements and ensuring that lessons from one country can be transferred to others; and the proposal to attach a detailed technical memorandum of understanding to all programs, defining all performance criteria, the data source for their measurement, and reporting intervals. Directors also welcomed the consideration being given by the staff to promote best practices in reserve management. With respect to strengthening countries' fiscal reporting capacity, Directors supported both a general effort to enhance the quality of fiscal data reporting and a more intensive effort in countries with evident weakness in the accuracy, coverage, or timeliness of fiscal data.

"Finally, the Executive Board made clear the importance it attaches to the staff's efforts to ensure the accuracy of the information it uses; to pursue the matter when data problems or anomalies arise; and to bring these difficulties to the attention of the Board. ■

Information/documents to obtain from member country central banks

Copies of

- audited (or unaudited if no audit is performed) financial statements for the past three years, together with related audit reports;
- all management letters issued by the external auditors in connection with their audit of the financial statements for the past three years;
- all audit reports (including agreed-upon procedures engagements) issued by the external auditors during the past three years; and
- current legislation governing the central bank.

Description of

- central bank's management structure, including organizational reporting structure; and
- organizational structure and reporting lines of the internal audit department, including details of the senior management staff in the department and a summary of staff resources (experience and qualifications).

Listing of

- all reports issued by the internal audit department in the past three years and summary description of findings. Potentially, copies of reports dealing with operational and financial controls during the same period;
- all accounts held by government agencies with the central bank;
- full legal names of any subsidiaries of the central bank and description of their business and nature of their relationship with the central bank; and
- all correspondent banks.

Summary of

- high-level internal controls in place for central bank's banking, accounting, and foreign exchange departments.

IMFSURVEY

Emerging Markets in the New Financial System

Uri Dadush
Director, Development Prospects Group
World Bank

Dipak Dasgupta
Lead Economist, Development Prospects Group
World Bank

Ashoka Mody
Lead Specialist, Development Prospects Group
World Bank

Ken Kletzer
University of California, Santa Cruz

Masahiro Kawai
Chief Economist, East Asia-Pacific
World Bank

Gregory A. Root
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Thomson BankWatch, Inc.

Bernhard Eschweiler
Head, Economic and Market Research Asia
J.P. Morgan

Benjamin Friedman
Department of Economics
Harvard University

Stefan Ingves
Director, Monetary and Exchange Affairs Department
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Joel Binamira
Director, Consulting—Asia-Pacific
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David Scott
Advisor, Financial Sector Department
World Bank

Gerald Meyerman
Manager, Corporate Restructuring Governance Group
World Bank

Timothy Wilson
Principal & Global Head of Risk Policy
Morgan Stanley Dean Witter

Peter Garber
Global Strategist, Global Markets Research
Deutsche Bank Group

Richard Portes
Haas School of Business/London School of Business

Emerging markets and new financial system

Prospect of continued volatility underscores need to enhance crisis prevention, recovery strategies

In the span of one exceptionally volatile decade—the 1990s—private capital flows and economic development ceased being two separate discussions and became a single urgent debate, Gary Perlin, Senior Vice President of the World Bank, observed in opening the Emerging Markets in the New Financial System Conference. The March 30–April 1 event, cosponsored by the World Bank, the IMF, and The Brookings Institution, took place in Florham Park, New Jersey.

Participants from financial markets, academia, policymaking, and international organizations focused on the Asian crisis and recovery and ways to deal with future volatility. Discussions addressed prospects for external flows to emerging markets, financial and corporate restructuring in Asia, ways to accelerate bank and corporate restructuring, and frontiers in risk management. Volatility and restructuring were recurring themes in the conference. If indeed volatility is expected to continue, and perhaps increase, Perlin noted the world had better be prepared to deal with it.

External financing flows

Providing a background for the discussion of crisis prevention and resolution strategies, Uri Dadush of the World Bank surveyed the prospects for external financing flows. Citing the World Bank's *Global Development Finance 2000*, Dadush pointed to a significantly improved outlook. A recovery was under way, he noted, but it was marked by significant differentiations among regions—with the Middle East and North Africa and sub-Saharan Africa lagging behind Asia and Latin America. Dadush also cautioned that while the report's overall prognosis was upbeat, there were clearly downside risks. Investors continue to fret about the prospects for a soft landing of the U.S. economy, the effectiveness of Japan's fiscal stimulus, and the health of east Asia's financial and corporate sectors.The report also examined capital flow surges over the past 130 years and found them typically associated with periods of rapid growth, technological innovation, and, ultimately, hard landings.

Capital flows to emerging markets should come back "big time," Dadush said, but the causes of volatility will not disappear. Developing economies are inherently less stable and less diversified, and information asymmetries are commonplace, he said.

Dipak Dasgupta of the World Bank pointed to excessive short-term borrowing as a trigger for, if not a cause of, the Asian crisis. Loan maturities rapidly shortened in the lead-up to the crisis, and even without excessive overall debt, that shortening took its toll. He explained that increased trade and greater financial liberalization had spurred the region's appetite for short-term lending, while intense competition at home, a dramatic increase in bank-to-bank lending, and pegged exchange rates had fueled the banks' readiness to lend. In theory, Dasgupta added, financial liberalization should provide a smoothing mechanism, but experience suggests short-term borrowing tends to intensify cyclical trends, and flows generally pour out twice as fast in bad times as they flow in during good times.

Ashoka Mody of the World Bank and Ken Kletzer of the University of California, Santa Clara, examined the pros and cons of using liquidity measures (additional reserves and credit lines) and capital controls. Holding increased international reserves might forestall a crisis unwarranted by fundamentals, but at a price—fiscal costs and weakened fundamentals. Contingent credit lines, they suggested, could be a superior option—fiscal costs would be lower, but contingent credit lines afford less flexibility and may require expensive collateral. Capital controls address volatility more directly, but taxes on short-term capital flows are difficult to implement. Limiting short-term debt exposure, which reduces government contingent liabilities and could lower the cost of crises, could be more effective, they said.

Restructuring in Asia

Masahiro Kawai of the World Bank, presenting a paper coauthored with colleagues Ira Lieberman and William Mako, assessed the generally slow progress east Asia has made in corporate restructuring. In the absence of effective legal mechanisms, out-of-court processes have played a key role, though court-based procedures are beginning to increase. For the future, Kawai said, it will be critical to find ways to monitor the health of financial corporations (notably large ones), restore banking sector confidence, segment and prioritize crises, strengthen out-of-court restructuring frameworks, resolve disputes between creditors, and use public asset management companies to resolve corporate distress.

On the financial side, Asia's crisis was set off by grave weaknesses at the sovereign and bank sector levels, undercapitalized banks, serious asset quality problems, heavy "related" lending, and inadequate regulatory enforcement and disclosure provisions, according to Gregory Root of Thomson BankWatch. He cautioned that now the risk in Korea is complacency, Japan still needs to take harsh measures up front, Thailand remains burdened with a very high (60 percent) ratio of unserviceable loans but the involvement of foreign banks is encouraging), and Indonesia's situation remains "considerably worse" than that of the rest of the region. More market discipline is needed, he concluded.

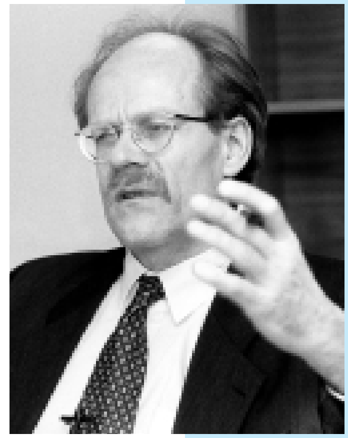
Surveying future prospects for Asia's emerging markets, Bernhard Eschweiler of J.P. Morgan stressed that last year's economic recovery was real and that the business cycle should provide further impetus. In a series of blunt assessments, he argued that Korea and Thailand had made the most progress to date; Malaysia had made progress, but none of its politically connected companies had yet to "face the music"; and Indonesia's progress had been on the political rather than the economic front. Ascribing the Asian crisis to "speeding" and "bad safety standards," Eschweiler was decidedly bullish on the region's future. The crisis had not derailed long-term growth (except in Indonesia), saving rates remained high (again, except for Indonesia), capital market activity had picked up, and the region's openness to trade and foreign investment was unshaken, he said.

Challenging conventional wisdom, Benjamin Friedman of Harvard University contended that rescheduling and other forms of restructuring keep new money flowing, but not all nonperforming debts should be restructured. He suggested that a higher rate of default might be healthy for the system and that temporarily constrained credit flows to some emerging market countries could be desirable. Friedman also argued that it was unwise to avoid all instances of lost output and temporarily interrupted development—longer-term output growth and development might be aided if borrowers, as well as lenders, bore real costs at times. He also contended that the IMF acts as an arranger of cartels and expressed surprise that losses on official loans were not more widely considered.

Facilitating bank, corporate restructurings

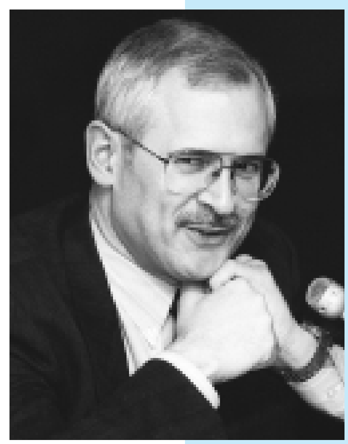
In systemic crises, Stefan Ingves of the IMF noted that governments, in addition to serving as lenders of last resort, also become "owners of last resort." In the vacuum created by widespread financial turmoil, governments will need to exert leadership and, in some instances, take on uncustomary responsibilities. In banking crises, governments should act to maintain the effectiveness of the system, ensure appropriate resolution mechanisms and burden sharing, promote efficient governance for intervened banks, and involve the private sector. In all actions, he stressed, transparency is the key to maintaining credibility and restoring public confidence.

The complex task of corporate restructuring warrants a comprehensive approach, Ingves added. Governments will need to make certain that appropriate legal and debt restructuring frameworks are in place, nonviable debts are separated from viable ones, credit discipline is maintained, and macroeconomic policies and tax measures are credible and effective. Corporate restructuring typically lags behind banking sector efforts, and can be sped up, he noted, only when effective legal and enforcement mechanisms, strong government leadership, and political support are in place.


Stefan Ingves

In the restructuring process, the IMF largely provides advice on calculating the cost of restructuring, Ingves said, and in the early stages helps countries identify the legal and institutional infrastructure that will be needed. In the end, he said, restructuring will require something the IMF cannot lend—political will.

David Scott of the World Bank, arguing that governments can indeed accelerate effective restructuring, emphasized the importance of leveraging resources and building a working consensus around a businesslike focus. Government should always seek, he said, to minimize controllable costs. Time is critical, because delays and uncertainty compound carrying and other financial costs and expand opportunities for waste and looting of assets.


Richard Portes

Analyzing corporate restructuring from a private sector perspective, Joel Binamira of the Barents Group criticized the close ties many corporates in the region had cultivated with governments. Profits, he said, had typically reflected monopoly advantages rather than sound business practices, and managers had more finely honed political skills than business expertise. At best, corporate restructuring in the region has been slow, Binamira explained. Corporations have been reluctant to recognize the severity of the problem, feared a loss of face, and unrealistically clung to hopes that a recovery would solve everything. Troubled assets needed realistic pricing and real buyers, he stressed, and governments needed to provide greater transparency, encourage a more level playing field, and reduce their own ties with business.

Without adequate legal mechanisms in place to cope with a tidal wave of defaults, Gerald Meyerman of the World Bank explained, many Asian crisis countries had turned to out-of-court debt restructurings largely patterned after the "London Approach." This approach relied on nonbinding principles of restructuring debt that minimized losses to the bank and other parties, avoided unnecessary liquidations of viable corporations, and ensured financial support for viable corporations while they restructured. It would be an overstatement, Meyerman said, to term the use of the London Approach in Asia a success, but the approach had advantages over other available options. Asia's experience suggests that out-of-court provisions were no substitute for more permanent solutions and underscores the need for new solvency and restructuring legislation, a stronger business environment, and better corporate governance.

Managing risk

The likelihood of increasing volatility is also helping drive the growing demand for risk management. Timothy Wilson of Morgan Stanley Dean Witter, examining financial risk management at the firm level and responses to liquidity crises, underscored the priority that firms now give to being keenly aware of current economic conditions, measuring quantifiable risks, and monitoring risks that are less easily quantified. To manage risks, firms are hedging when they can, diversifying or insuring when they cannot hedge, managing capital structure with an eye toward risk, and communicating as much information as possible on financial conditions and risk.

Financial markets are proving they can deal with firm-specific crises, Wilson said, but there is perhaps a more important role than ever for central banks in macro liquidity crises. One of the most promising new mechanisms, he observed, is to have central banks write options and collect option premiums—as the U.S. Federal Reserve did for the Y2K period. He warned that what may be ahead are fewer, but bigger, crises.

What you see is what you get—except in the new financial system, Peter Garber of Deutsche Bank Group cautioned. Risk monitoring that focuses solely on on balance sheet data may miss out on half the story. Derivatives, he noted, are an ideal means to circumvent prudential regulations, because accounting systems do not keep pace with rapidly innovated financial market instruments and are nearly obsolete for balance of payments data. On-balance-sheet data, Garber suggested, create an "optical illusion" that may mask the real implications of major shifts in capital flows. Without a fuller idea of what players in the market are doing and why, it will be extremely difficult to measure a country's potential susceptibility to major capital flow reversals and to gauge what is driving reversals and what appropriate short- and long-term responses should be, Garber said.

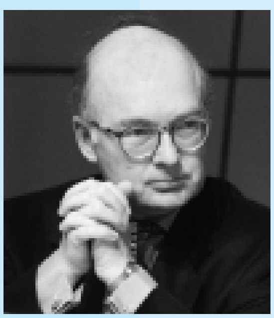
In a concluding presentation, Richard Portes of the London School of Business noted that recent crises and several large bailouts have prompted a number of proposals that in effect seek to abolish the IMF and end big bailouts. The recommendations seem to harken back to a golden age when creditor agencies resolved crises neatly and without moral hazard. But this golden age never was, he said. Before the IMF existed, defaults took years to resolve, and it "was not nice." Large bailouts, he stressed, can be avoided only when credible alternatives are in place.

He suggested that bondholder committees and collective-action clauses offered more plausible alternatives. Bondholder committees could mitigate information problems, establish procedures, create peer pressure, and facilitate side payments. Collective-action clauses could provide for qualified voting majorities, and sharing and nonacceleration agreements. There has been resistance in various quarters, Portes noted, but if the world is serious about reform, these proposals offer more realistic solutions. ■

Sheila Meehan
Senior Editor, *IMF Survey*

IMF appoints Flemming Larsen as new Director of Europe Office

IMF Acting Managing Director Stanley Fischer announced in a press release dated April 14 that he has named Flemming Larsen, a national of Denmark, as Director of the IMF's Office in Europe. Larsen, who is currently the Deputy Director of the IMF's Research Department, succeeds Christian Brachet.



Larsen joined the IMF in 1985 and has held various positions in the Research Department, where, since 1992, he had the senior responsibility for the *World Economic Outlook*. He was appointed Deputy Director of the Research Department in 1996.

Larsen was educated at the College of Europe and the University of Aarhus. Before joining the IMF, he worked for the Organization for Economic Cooperation and Development (OECD) and Wharton Econometrics. While on leave from the IMF, he also worked for the European Commission in Brussels.

The IMF's Office in Europe is situated in Paris. The Office plays a key role in the IMF's efforts to maintain a dialogue with nongovernmental organizations and other audiences in Europe. It also serves as a liaison office for the IMF in Europe by maintaining close contact with the institutions of the European Union and with international and regional institutions such as the OECD, the Bank for International Settlements, and the Group of 10.

The full text of Press Release No. 00/29 is available on the IMF's website (www.imf.org).

IMF Institute seminar

Krueger says "delinking" future financial crises from payments crises could reduce costs

The Asian crisis of 1997–98 presented the international community with a volatile mixture of economic problems that defied traditional policy prescriptions. The combination and seriousness of balance of payments crises and financial system crises forced international organizations and governments to come up quickly with responses.

Even as the Asian economies return to the growth path, the debate over the response to the crisis continues. A leading figure in the academic community of economists has added her voice to the discussion of the causes of the crisis—and the policy response. Anne O. Krueger, professor of economics at Stanford University and director of the Stanford Institute for Economic Policy Research, presented her findings at an IMF Institute seminar on March 31. Her presentation, "Cronyism, Financial Fragility, and Exchange Rate Regimes: Lessons from Asia," offered a wide-ranging view of the crisis, as well as a set of policy prescriptions potentially relevant to future emerging market crises.

Krueger, who is also a senior fellow at the Hoover Institution and a former World Bank vice president of economics and research, supported her presentation with two papers. The first, "Why Cronyism Is Bad for Economic Growth," demonstrates that state-owned

Recent publications

Working Papers ($7.00)

00/47: *Compliance with IMF Program Indicators and Growth in Transition Economies*, Valerie Mercer-Blackman and Anna Unigovskaya

00/48: *Herd Behavior in Financial Markets: A Review*, Sushil Bikhchandani and Sunil Sharma

00/49: *The Impact of Ethnic Heterogeneity on the Quantity and Quality of Public Spending*, Louis Kuijs

00/50: *The Pros and Cons of Full Dollarization*, Andrew Berg and Eduardo Borensztein

00/51: *The Complier Pays Principle: The Limits of Fiscal Approaches Toward Sustainable Forest Management*, Luc Leruth, Remi Paris, and Ivan Ruzicka

00/52: *A Framework for Assessing Fiscal Vulnerability*, Richard Hemming and Murray Petrie

00/53: *Unionization and Strategic Trade Policy*, Phillip Swagel and Ling Hui Tan

00/54: *Comparative Macroeconomic Dynamics in the Arab World—A Panel VAR Approach*, Alexei Kireyev

00/55: *Trade and Financial Contagion in Currency Crises*, Francesco Caramazza, Luca Ricci, and Ranil Salgado

00/56: *Monetary and Fiscal Coordination in Small Open Economies*, DeLisle Worrell

00/57: *Deposit Insurance and Crisis Management*, Gillian Garcia

00/58: *Relative Prices, Inflation, and Core Inflation*, Scott Roger

00/59: *Alternative Methods of Estimating Potential Output and the Output Gap: An Application to Sweden*, Valerie Cerra and Sweta Chaman Saxena

00/60: *Contagion, Monsoons, and Domestic Turmoil in Indonesia—A Case Study in the Asian Currency Crisis*, Valerie Cerra and Sweta Chaman Saxena

00/61: *Welfare Effects of Uzbekistan's Foreign Exchange Regime*, Christoph B. Rosenberg and Maarten de Zeeuw

00/62: *Income Distribution and Tax and Government Social Spending Policies in Developing Countries*, Ke-young Chu, Hamid Davoodi, and Sanjeev Gupta

00/63: *Misalignment and Managed Exchange Rates: An Application to the Thai Baht*, Guay-Cheng Lim

IMF Staff Country Reports ($15.00)

00/43: Switzerland: Selected Issues and Statistical Appendix

00/44: Panama: Selected Issues and Statistical Appendix

00/45: Republic of Poland: Staff Report for the 1999 Article IV Consultation

00/46: Monetary and Exchange Rate Policies of the Euro Area

00/47: Nepal: Recent Economic Developments

00/48: People's Republic of China—Hong Kong Special Administrative Region: Selected Issues and Statistical Appendix

00/49: Belgium: Selected Issues

00/50: Liberia: Selected Issues and Statistical Appendix

00/51: Paraguay: Selected Issues and Statistical Appendix

00/52: Liberia: Staff Report for the 1999 Article IV Consultation and Staff Monitored Program

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enterprises and cronyism have a similar impact on an economy and shows how "the role of domestic credit expansion in an environment of cronyism can play much the same role as a fiscal deficit in countries where state-owned enterprises predominate." The second paper, "Conflicting Demands on the International Monetary Fund," analyzes the difficulties presented by the confluence of factors during the Asian crisis.

Anne Krueger: "The correct policy response ... should have been to address the balance of payments crisis first."

Krueger blended these themes, but focused mainly on the policy response to the conflicting challenges of the external crisis represented by the collapse of Asia's system of fixed exchange rates and the internal crises in financial systems. Complicating the Asian crisis—in contrast to what Krueger termed the "traditional" balance of payments crisis—was the underdeveloped state of the region's financial systems.

The huge increase in domestic credit throughout Asia in the mid-1990s brought about a corresponding sharp rise in foreign borrowing, Krueger said. These developments were exacerbated by cronyism and the assumption by borrowers that they were not facing a foreign exchange risk because of the region's system of pegged exchange rates. The devaluations that began with the Thai baht in July 1997 led to the rapid impairment of balance sheets throughout the region.

Policy response

The correct policy response to the combined crises, in Krueger's view, should have been to address the balance of payments crisis first. She recognized that the traditional remedy—an exchange rate devaluation and tighter fiscal and monetary policy—increased the foreign liabilities of Asian banks and corporations and exacerbated the ensuing financial system crisis. In her view, however, balance of payments problems can be addressed in the short term, but banking crises inevitably will involve difficult and long-term solutions.

Krueger offered several policy lessons that she said could help prevent future crises.

First, the Asian crisis underlined the limited options now available in terms of foreign exchange regimes. There is no alternative to either a "genuine float" or dollarization, she said, and "no middle ground" that can successfully accommodate and adapt to derivatives, rapid communications, the impossibility of restricting short-term borrowing abroad, and the ease of money transfers.

Second, Krueger said, countries need to maintain high levels of reserves, ideally along with a current account surplus, to reduce the potential for a crisis similar to the one that struck Asia. While a freely floating currency would reduce the risk of speculation against a country's currency, it would not eliminate it altogether. Thus, the continued need for reserves. Unless a country maintains enough reserves to cover more than four months of exports, Krueger said, it is ill-advised to post current account deficits larger than 3 percent of GDP.

Third, rapid expansion of domestic credit is extremely dangerous, Krueger said. Such growth for longer than one or two years is not sustainable—in large measure because it is not possible to check the quality of lending even in well-supervised financial systems. Thus, it is essential that adequate prudential supervision be put in place, along with appropriate levels of bank capitalization. Supervision is crucial to the broader issue of maintaining a well-functioning financial system to fund a high real rate of return, which, in turn, requires not only well-run domestic banks but also access to the domestic market by foreign banks.

Mitigating future crises

Krueger offered a simple but controversial proposal intended to reduce the cost of future crises. She suggested that financial crises be "delinked" from balance of payments crises. Mechanisms to protect borrowers from foreign currency liabilities should be in place to augment an appropriate foreign exchange regime and a strong banking system. She proposed a system under which domestic borrowers would no longer be required to repay international borrowings in foreign currency. Rather, they would be required to repay such loans in their own currency. Under this system, the lender would be obliged to accept the foreign exchange risk. To reinforce this approach, international lenders would not be permitted to seek enforce-

Selected IMF rates

Week beginning	SDR interest rate	Rate of remuneration	Rate of charge
April 3	4.22	4.22	4.80
April 10	4.24	4.24	4.82
April 17	4.23	4.23	4.81

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

Data: IMF Treasurer's Department

ment of contracts in local courts. Krueger suggested that such reforms could be put in place if the Group of Seven nations backed them. Although it is impossible to prevent balance of payments crises or financial system crises from ever happening, she argued that her proposal would make combined crises less likely. ■

Jeremy Mark
IMF External Relations Department

Available on the web (www.imf.org)

Spring Meetings 2000: Official communiqués, statements, transcripts, and other materials from the IMF–World Bank Spring Meetings 2000.

Press Releases

00/25: IMF Approves Poverty Reduction and Growth Facility Loan for Tanzania, April 5
00/26: IMF and IDA Support Debt Relief for Tanzania, April 5
00/27: IMF Establishes Independent Evaluation Office, April 10
00/28: Mozambique Qualifies for an Additional $600 Million in Debt Relief under the Enhanced HIPC Initiative, Bringing Mozambique Total Debt Reduction under the Initiative to $4.3 Billion
00/29: IMF Appoints Flemming Larsen as New Director of Europe Office, April 14, 2000 [see page 138]
00/30: Joint IMF–World Bank Implementation Committee for the HIPC Initiative and the PRSP Program, April 16
00/31: Communiqué of the International Monetary and Financial Committee of the Board of Governors of the IMF, April 16 [see page 119]
00/32: IMF Approves Stand-By Credit for Ecuador, April 19

News Briefs

00/20: IMF Completes Bulgaria Review and Approves $70 Million Credit Tranche, March 31
00/21: IMF Completes Off-Market Gold Sales, April 7
00/22: President of Colombia Meets IMF Acting Managing Director, April 11

Public Information Notices (PINs)

00/25: Poland, March 31
00/26: IMF Executive Board Discusses the Monetary and Exchange Rate Policies of the Euro Area, April 3
00/27: Kuwait, April 4
00/28: IMF Adopts Added Safeguards on Use of Its Resources, April 4 [see page 134]
00/29: Burundi, April 7
00/30: Liberia, April 11
00/31: IMF Executive Board Reviews Data Standards, April 11
00/32: Bulgaria, April 19

Press Briefings

Transcript of a press briefing by Jacques Artus, Deputy Director, IMF European I Department, April 4
Transcript of a press briefing by Stanley Fischer, April 5
Transcript of a press briefing on the April 2000 *World Economic Outlook*, April 12
Transcript of a press briefing by Stanley Fisher, April 13

Speeches

Remarks by IMF Deputy Managing Director Eduardo Aninat at the German Foundation for International Development, Berlin, March 14
Remarks by Stanley Fischer at the Bretton Woods Committee Meeting, April 4
Remarks by Stanley Fischer at the conference entitled "Investment Climate and Prospects for Economic Growth in Russia," Moscow, April 6
Lunch address by Stanley Fischer at conference entitled "Promoting Dialogue: Global Challenges and Global Institutions," April 13

Letters of Intent and Memorandums of Economic and Financial Policies (date posted)

Trinidad and Tobago, March 31
Papua New Guinea, March 31
Tanzania (includes Interim Poverty Reduction Strategy Paper), April 3
Bulgaria, April 5
Bosnia and Herzegovina, April 10

Concluding Remarks for Article IV Consultations (date posted)

Italy, March 31
Netherlands, April 4

Other

Review of Experience with Evaluation in the Fund, prepared by the Evaluation Group of IMF Executive Directors, March 14
Third Review of the Fund's Data Standards Initiatives, March 15
Policy Statement of IMF Technical Assistance, March 31
Review of Fund Facilities—Preliminary Considerations, March 31
Financial Assistance for the IMF's Poorest Members, April 3
Bulgaria: Experimental Reports on Observance of Standards and Codes, April

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

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

Concluding Remarks for Article IV Consultations. At the conclusion of annual Article IV discussions with the authorities, and prior to the preparation of the staff's report to the Executive Board, the IMF mission often provides the authorities with a statement of its preliminary findings.

Bretton Woods Committee annual meeting

IMF, World Bank need to develop political constituency at home, focus on poverty reduction

Much of the resistance to institutionalized globalization and international financial cooperation and trade has focused on the World Bank, the IMF, and the World Trade Organization (WTO). These institutions, in turn, face a dilemma: how to fulfill the role the international community has assigned to them while at the same time responding to the sometimes conflicting interests between and within member countries. This dilemma was the basis for discussion at the April 4 annual meeting of the Bretton Woods Committee—a U.S.-based bipartisan, nonprofit group organized to build public understanding of international financial and development issues. Participants at the Washington meeting included senior officials from international financial institutions, government officials, and representatives from the private sector and nongovernment organizations.

While acknowledging that some institutional reform—particularly in the areas of openness and fairer representation—is desirable, many speakers emphasized that national governments needed to take a more active role in helping to close the widening gap between rich and poor in their own countries.

What role for the IMF?

"The IMF can hardly complain about not getting any attention these days," IMF Acting Managing Director Stanley Fischer said, referring to various recommendations for reform that have been made in the past year or so. Reform at the IMF, Fischer noted, is an ongoing process: "continuous" rather than "revolutionary."

The evolutionary "revolution" continues, Fischer said, as the IMF seeks to improve and extend its activities, including its lending functions. The IMF lends to countries in crisis, to countries trying to avoid crises, and to the poorest member countries. This third group, Fischer said, is controversial, because many critics say the IMF should not be in the poverty business. But, Fischer stressed, the poorest members of the world community belong to the IMF, have the same macroeconomic issues as middle-income and emerging market countries, and have the same right as every other member to access the IMF's facilities. Helping countries achieve and maintain stability is the business of the IMF, Fischer said, but these efforts are doomed to failure if programs supported by the IMF ignore the fact that poverty is the main problem confronting these countries. The IMF's newly constituted Poverty Reduction and Growth Facility, therefore, puts poverty reduction, along with growth, at the center of IMF programs. Under this strategy, the IMF, working with the World Bank, ensures that the macroeconomic policy framework a country develops with IMF assistance is fully consistent with what needs to be done in the social sector.

The IMF and the World Bank lack a viable political constituency in the United States, and especially in the U.S. Congress, according to Timothy Geithner of the U.S. Treasury. Globalization can work for the economic good of developing and industrial countries alike, Geithner said, but drumming up popular support for the "global" institutions remains a problem. Any reform of the IMF must recognize its core functions, he said, which include preventing financial crisis, promoting sound economic policies among its members, and providing support for poverty reduction programs.

According to U.S. Congressman Barney Frank, the growing resistance and hostility, especially in the United States, to free trade and globalization reflects to some extent the collapse of the consensus on behalf of U.S. participation in the international economy and freely moving capital that prevailed from the late 1940s up until the late 1980s. On the right, efforts to use foreign aid and trade opportunities to recruit allies against hostile external forces have disappeared with the collapse of communism. On the left, early optimism about the universal benefits of globalization has dissipated as some segments of the population have found themselves on the losing end.

Rebuilding the political constituency that will support the efforts of the international financial institutions requires action on both the domestic and the

Members' use of IMF credit
(million SDRs)

	During March 2000	January–March 2000	January–March 1999
General Resources Account	**905.10**	**1,166.52**	**1,062.13**
Stand-By Arrangements	905.10	906.52	95.98
EFF	0.00	260.00	557.13
CCFF	0.00	0.00	409.02
PRGF[1]	**36.80**	**86.81**	**207.64**
Total	**941.90**	**1,253.33**	**1,269.77**

EFF = Extended Fund Facility
CCFF = Compensatory and Contingency Financing Facility
PRGF = Poverty Reduction and Growth Facility
Figures may not add to totals shown owing to rounding.
[1]Formerly ESAF—the Enhanced Structural Adjustment Facility.
Data: IMF Treasurer's Department

international level, Frank said. On the national level, directly addressing the unequal income distribution within the United States, he maintained, is a good way to build support for globalization. Safety nets need to be provided for those people who are not participating in the new economy. On the international level, the IMF should continue to stress that its new focus on poverty reduction is a direct goal of the economic programs it supports rather than an indirect result of growth-oriented macroeconomic policy reform.

Speaking as a representative of an emerging market economy that has benefited from IMF financial assistance, Carlos Noriega, Deputy Minister of Finance and Public Credit of Mexico, said that several "myths"

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

Member	Date of arrangement	Expiration date	Amount approved	Undrawn balance
			(million SDRs)	
Stand-By			**45,379.70**	**17,288.73**
Bosnia and Herzegovina	May 29, 1998	April 28, 2000	77.51	24.24
Brazil[1]	December 2, 1998	December 1, 2001	10,419.84	2,550.69
Estonia	March 1, 2000	August 31, 2001	29.34	29.34
Korea[1]	December 4, 1997	December 3, 2000	15,500.00	1,087.50
Latvia	December 10, 1999	April 9, 2001	33.00	33.00
Lithuania	March 8, 2000	June 7, 2001	61.80	61.80
Mexico	July 7, 1999	November 30, 2000	3,103.00	1,163.50
Papua New Guinea	March 29, 2000	May 28, 2001	85.54	85.54
Philippines	April 1, 1998	June 30, 2000	1,020.79	475.13
Romania	August 5, 1999	May 31, 2000	400.00	347.00
Russia	July 28, 1999	December 27, 2000	3,300.00	2,828.57
Thailand	August 20, 1997	June 19, 2000	2,900.00	400.00
Turkey	December 22, 1999	December 21, 2002	2,892.00	2,670.28
Zimbabwe	August 2, 1999	October 1, 2000	141.36	116.62
EFF			**9,798.37**	**8,209.86**
Bulgaria	September 25, 1998	September 24, 2001	627.62	313.82
Colombia	December 20, 1999	December 19, 2002	1,957.00	1,957.00
Indonesia	February 4, 2000	December 31, 2002	3,638.00	3,378.00
Jordan	April 15, 1999	April 14, 2002	127.88	106.56
Kazakhstan	December 13, 1999	December 12, 2002	329.10	329.10
Moldova	May 20, 1996	May 19, 2000	135.00	47.50
Pakistan	October 20, 1997	October 19, 2000	454.92	341.18
Panama	December 10, 1997	December 9, 2000	120.00	80.00
Peru	June 24, 1999	May 31, 2002	383.00	383.00
Ukraine	September 4, 1998	September 3, 2001	1,919.95	1,207.80
Yemen	October 29, 1997	March 1, 2001	105.90	65.90
PRGF			**3,564.31**	**2,058.55**
Albania	May 13, 1998	May 12, 2001	45.04	14.11
Benin	August 28, 1996	August 26, 2000	27.18	10.87
Bolivia	September 18, 1998	September 17, 2001	100.96	56.10
Burkina Faso	September 10, 1999	September 9, 2002	39.12	33.53
Cambodia	October 22, 1999	October 21, 2002	58.50	50.14
Cameroon	August 20, 1997	August 19, 2000	162.12	36.03
Central African Republic	July 20, 1998	July 19, 2001	49.44	32.96
Chad	January 7, 2000	January 7, 2003	36.40	31.20
Côte d'Ivoire	March 17, 1998	March 16, 2001	285.84	161.98
Djibouti	October 18, 1999	October 17, 2002	19.08	16.36
The Gambia	June 29, 1998	June 28, 2001	20.61	13.74
Ghana	May 3, 1999	May 2, 2002	155.00	110.70
Guinea	January 13, 1997	December 20, 2000	70.80	15.73
Guyana	July 15, 1998	July 14, 2001	53.76	35.84
Honduras	March 26, 1999	March 25, 2002	156.75	80.75
Kyrgyz Republic	June 26, 1998	June 25, 2001	73.38	38.23
Macedonia, FYR	April 11, 1997	April 10, 2000	54.56	27.28
Madagascar	November 27, 1996	July 27, 2000	81.36	40.68
Mali	August 6, 1999	August 5, 2002	46.65	39.90
Mauritania	July 21, 1999	July 20, 2002	42.49	36.42
Mongolia	July 30, 1997	July 29, 2000	33.39	15.95
Mozambique	June 28, 1999	June 27, 2002	87.20	42.00
Nicaragua	March 18, 1998	March 17, 2001	148.96	53.82
Pakistan	October 20, 1997	October 19, 2000	682.38	417.01
Rwanda	June 24, 1998	June 23, 2001	71.40	38.08
Senegal	April 20, 1998	April 19, 2001	107.01	57.07
Tajikistan	June 24, 1998	June 23, 2001	100.30	40.02
Tanzania	March 31, 2000	March 30, 2003	135.00	135.00
Uganda	November 10, 1997	November 9, 2000	100.43	17.85
Yemen	October 29, 1997	October 28, 2000	264.75	114.75
Zambia	March 25, 1999	March 24, 2002	254.45	244.45
Total			**58,742.38**	**27,557.14**

[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

Members drawing on the IMF "purchase" other members' currencies, or SDRs, with an equivalent amount of their own currency.

IMF SURVEY

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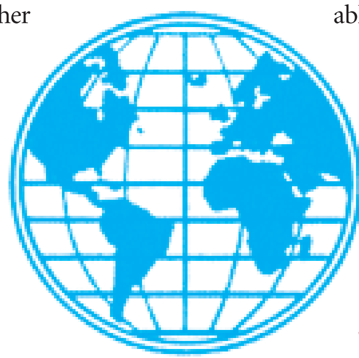
about the IMF need to be debunked. Far from having outlived its usefulness, the institution's near-universal membership provides opportunities for economic growth and improved standards of living for all countries, particularly poor countries that lack access to private capital markets and other forms of bilateral financial assistance. Further, without the IMF's crisis prevention and resolution functions, periodic financial convulsions in the markets could permanently disable smaller, weaker players and lead to a long-term disruption of the international financial system. The new focus on poverty reduction, along with growth, as the central element in IMF-supported programs demonstrates the institution's ability to change and adapt; the enhanced cooperation between the IMF and the World Bank on debt and poverty-reduction initiatives that take into account social and macroeconomic considerations argues against calls for greater lines of demarcation to be drawn between the two institutions.



Multilateral development banks

Recent calls for cutbacks in the lending and development activities of the multilateral development banks, especially the World Bank, threaten the growth prospects of much of the developing world. Moreover, according to Robert Hormats of Goldman Sachs, what happens in poor countries has an effect on the U.S. economy. There is a need for an "internal debate," he said, to show the domestic consequences of withholding financial aid and assistance to poor countries. For example, lack of basic health care and disease prevention could mean the spread of infectious diseases and viruses across continents, while global terrorism often has it roots in intense economic dissatisfaction at home. Hormats said complacency about the U.S. and world economies has "shut our eyes to the real risks to which we remain vulnerable."

In the next 25 years, the world's population could top 8 billion, a rise of 2 billion, more than half of whom will be living in poverty, James Wolfensohn, President of the World Bank, noted. New approaches to development assistance from the multilaterals are needed to meet this challenge, including basing growth and development on sound macroeconomic and structural policies. This comprehensive approach, Wolfensohn said, depends on cooperation among the regional and multilateral development banks and the IMF.

A comprehensive approach is also needed in Latin America. Enrique Iglesias, President of the Inter-American Development Bank, cited the still considerable roadblocks to development in Latin America: low growth, external imbalances, and large income inequalities.

Cooperation among international financial institutions, including multinational and regional development banks, is also crucial for development. Peter Sullivan, Vice President at the Asian Development Bank (ADB), noted that much of the remarkable recovery in Asia from the crises of 1997–98 was due to a cooperative effort that succeeded in helping to put Asia back on the road to growth. Nevertheless, poverty is still widespread in many parts of Asia, and the region will continue to require assistance from the World Bank to tackle governance issues and institutional and structural weaknesses. Like the other regional development banks, Sullivan said, the ADB would suffer if the activities and scope of the World Bank were cut back.

Globalization: threat or promise?

Globalization is inevitable and can bring benefits to many. But, at the same time, national and international institutions need to assume responsibility for all segments of society—not just the beneficiaries of globalization. These were the main conclusions reached in a final discussion, moderated by Bill Frenzel of the Bretton Woods Committee. Renato Ruggiero of Salmon Smith Barney and former Director General of the WTO said that the current backlash against globalization was troubling, but did not presage a return to isolationism and closed economies. In fact, as Heng Chee Chan, Singapore's ambassador to the United States, noted, none of the crisis-affected countries in Asia had turned its back on the free market. But they know they are vulnerable and that contagion effects can be devastating. Globalization, she said, is inevitable, but supportive policies are not.

David Beckmann of Bread for the World, a nongovernmental organization, emphasized the importance of building a domestic political constituency to support the poverty alleviation and development efforts of the multilateral institutions. We need "grass roots" and "brass tops," he said.

Governance is an international system, with its own logic, that will affect every country and business, according to Thomas Friedman of the *New York Times* and author of *The Lexus and the Olive Tree: Understanding Globalization*. Open, free trade is essential for growth and development, he said, but "globalizers" need to bring along the "have-nots, the losers, and the left-behinds," or the political backlash will be fierce and disruptive. For the globalization system to operate efficiently, therefore, society and government need to find an equilibrium between social safety nets and integration. ■