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IMF–World Bank spring meetings overview

Mood upbeat on economic front, but MDGs at risk

An increasingly broad and dynamic global recovery set the tone for an upbeat gathering of the world's finance ministers and central bank governors on April 24 in Washington, D.C., for the spring meeting of the International Monetary and Financial Committee (IMFC)—the IMF's ministerial steering committee. The top financial leaders welcomed the better global economic outlook, with industrial production and global trade picking up sharply. But they warned of risks from large global imbalances, higher interest rates, volatile oil prices, and geopolitical concerns. And they cautioned that most developing countries were headed to miss most of the UN Millennium Development Goals (MDGs) by the target date of 2015. Not on the agenda of the meetings, but much discussed by the media and other observers, was the impending selection of a new IMF Managing Director (see box, page 132).

IMFC Chair Gordon Brown, right, with Anne Krueger, told reporters that all countries need to cooperate in tackling global imbalances.

IMFC Chair Gordon Brown, U.K. Chancellor of the Exchequer, told reporters after the meeting on April 24 that all countries need to (*Please turn tso the following page*)

Interview with Horst Köhler

Outgoing Managing Director backs rethink of IMF voting structure

On March 4, 2004, Horst Köhler stepped down as IMF Managing Director following his nomination for the office of German president (the election will take place on May 23). In an interview with Laura Wallace in late April, he said that it might be time for Europe to make a bold political gesture, consolidating its own representation on the IMF's Executive Board to help enhance the voice of developing countries. He also supported other changes in the IMF's governance structure that would benefit small, low-income countries and emerging market members whose quotas no longer reflect their true weight in the world economy.

Köhler: "I support a vision of an ever closer political union in Europe, and consolidating EU chairs in the IMF's Executive Board would be consistent with that vision!"

IMF SURVEY: Your sudden departure has cast a spotlight once again on how the IMF Managing Director is chosen. Is it time to abandon the tradition that Europe holds the top IMF post and the United States the top position at the World Bank? What would you suggest be done?

KÖHLER: I support an open and transparent process to select the Managing Director, and I see no reason to restrict the search to a particular (*Please turn to page 115*

Executive Board to select new Managing Director for the IMF (see page 132)

Spring meetings highlight trade concerns

(Continued from front page) cooperate in tackling global imbalances (see IMFC press briefing, page 120). For the United States, this will mean fashioning a credible medium-term framework that will allow it to transit from expansionary fiscal policies—which have helped fuel its recovery—to a healthier budget environment in which the pension and health care costs of an aging population can be addressed (see *World Economic Outlook*, page 130). For Europe, where subdued growth cast one of the few shadows on a generally bright global horizon, it will mean accelerated labor market and other structural reforms; and for Japan, continued banking and corporate reforms.

Greater urgency on trade

Brown also pointed to what he termed the strongest language yet from the Group of Seven top industrial countries on the urgency of revitalizing global trade talks. "Rapid progress on and early conclusion of the Doha Round is imperative," the group's communiqué said, noting that this "will require action by all parties to resolve key outstanding issues" (see Group of Seven communiqué, page 124). The Group of 24 developing countries concurred, but its chair, Minister Conrad Enill of Trinidad and Tobago, also chided advanced countries "to deliver on their commitments to increase market access for developing country exports and drastically reduce impediments to agricultural trade so that the round can be concluded as scheduled in 2005."

The IMFC commended the IMF's work in advocating trade liberalization and in helping countries take the steps needed to benefit fully from open markets—stressing the importance of open markets, fair access, and reductions in trade-distorting subsidies (notably in sectors crucial to developing countries, such as agriculture, textiles, and clothing). Also widely welcomed was the IMF's establishment of the Trade Integration Mechanism. IMF Acting Managing Director Anne Krueger told reporters that it put the IMF in a position to provide "very quick financial support" if a country experienced a "shortfall in its exports or an increase in commodity prices of its imports" because of multilateral trade liberalization efforts.

On the eve of the IMF's biennial review of its surveillance, the IMFC credited this core responsibility with contributing an "essential element of the international community's efforts to enhance crisis prevention, promote financial stability, and foster high and sustainable growth." It welcomed the IMF's increased focus on the financial sector and international capital market issues and its pilot projects on one of the most vigorously debated issues of late—that is, how public investment should be treated in IMF advice and arrangements and what can be done to ensure that valuable infrastructure investment is protected without putting at risk macroeconomic stability and debt sustainability.

As for giving poorer countries a bigger say in the policies and procedures of the IMF, the IMFC noted that the IMF's credibility as a cooperative institution rests in part on all members' having appropriate voice and representation. It called for continued efforts "to enhance the capacity of developing and transition countries to participate more effectively in IMF decision making" and asked the Executive Board to continue its work on IMF quotas, voice, and representation.

Among developing countries, notably in meetings of the African finance ministers (see page 127) and the Group of 24, however, there were indications of growing impatience with the pace of progress on these issues. Enill called for a more concrete timetable that would allow for completion of this work by the 2006 Annual Meetings—the time frame set by the international community at the March 2002 UN Conference on Financing for Development held in Monterrey, Mexico. He also expressed his group's particular concern over the selection process for the head of the IMF. The choice of a head for a Bretton Woods institution should always, he said, "be open, inclusive, and transparent, involving the full participation of all members."

Chasing the MDGs

On April 25, the joint World Bank–IMF Development Committee met to review progress toward achieving the MDGs, which include cutting poverty in half by 2015 from its 1990 level. Despite progress on many fronts, the Development Committee noted that most MDGs will not be met by most developing countries, particularly in sub-Saharan Africa, if current trends continue (see Development Committee communiqué, page 122). The joint World Bank–IMF *Global Monitoring Report*, released on April 22, challenged rich and poor countries and the international financial institutions to keep the promises made in Monterrey. It said that aid flows would need to roughly double from their current level of $50–60 billion to support adequate progress toward the MDGs. World Bank President James Wolfensohn told reporters that the international community has its priorities backward—with global defense spending about $900 billion a year and farm subsidies in wealthy nations totaling $300 billion a year. "If we spent $900 billion on development," he said, "we probably wouldn't need to spend more than $50 billion on defense." ■

Köhler cites greater IMF openness

(Continued from front page) country or region. But we must also be realistic: there will always be an element of politics in the selection process because the IMF is an important institution, and its members want, and deserve, a strong say in who is at the helm.

IMF Survey: Governance issues extend beyond the selection process for the Managing Director. Many developing countries have long felt that they don't have sufficient voice and representation at the Executive Board. You chaired the Board for several years. Are the developing countries underrepresented? What is needed to reach a political solution to address current imbalances in representation?
Köhler: It's critical for the IMF to maintain a spirit of consensus and ensure that all members, large and small, feel that they are heard and can say, "Yes, this is also my Fund." That's why listening and consensus building are more important than numerical representation. That said, I do see scope for some adjustment in voting shares, for example, by increasing so-called basic voting rights, which would favor small, low-income members, and by raising the share of fast-growing emerging market countries, whose quotas no longer reflect their true weight in the world economy. I also think that Europe, in a bold political gesture, could rethink its own representation.

IMF Survey: Would you favor consolidating the EU's representation in the Executive Board, currently spread over 10 chairs, into a single EU chair?
Köhler: This is an issue for the Europeans to decide. The draft European constitution does go in that direction. Personally, I support a vision of an ever closer political union in Europe, and consolidating EU chairs in the IMF's Executive Board would be consistent with that vision!

IMF Survey: Reflecting on your four years as Managing Director, what would you regard as your greatest successes and greatest disappointments?
Köhler: It's too early to come to final judgments on reforms that have been implemented over the past four years, many of which were under way before I arrived. But, overall, I believe the IMF has contributed to stronger global financial stability. Indeed, we should be encouraged by the global economy's ability to weather successfully a series of severe shocks in recent years. I also see considerable progress in changing the IMF's image from that of a relatively closed institution to that of a much more open institution. When I first traveled to Africa in June 2000, I met with Ellen Johnson-Sirleaf of Liberia, who said that the IMF, for her, stood for SAD—secretive, arrogant, and dominant. Today, I more often hear from leaders in Africa that the IMF is valued as a partner in the fight against poverty.

IMF Survey: Are you worried that progress toward greater IMF transparency has plateaued with one-fourth of members—including several large countries—still not agreeing to the publication of IMF Staff Reports on their countries? How can the IMF get this moving forward again?
Köhler: I'm not worried. The progress in recent years has been breathtaking. Most countries now agree that transparency is desirable because they know that if markets doubt the credibility of information, such as statistical information, this just increases uncertainty and risk. The IMF's policy, rightly, is to continue to encourage and assist its members to be more open, including by agreeing to the release of IMF documents, and I believe it's vital that countries do so on a voluntary basis.

IMF Survey: Early on, you stressed the need for the IMF to raise its efficiency and legitimacy by refocusing its work, concentrating on its core areas of responsibility and expertise. Yet, in some ways, our mandate seems to have broadened even further to include such issues as combating money laundering and the financing of terrorism. How do you see it?
Köhler: The new responsibilities that the IMF has taken on fall within our mandate of promoting global financial stability, and I believe we've ensured that our involvement doesn't extend beyond our areas of expertise. At the same time, the streamlining of IMF conditionality for loans has helped both the institution to focus on those policies that are critical to achieving a program's objectives and countries to strengthen ownership of their stabilization and reform policies. There's been significant convergence on which economic policies are needed to sustain growth and fight poverty; in principle, people have accepted freedom and market economics as the basic approach to prosperity and social stability. But markets alone are no panacea: they need to be supported

Jacques Sylla (Madagascar's Prime Minister), left, and Benjamin Radavidson (its Minister of Finance), right, meet Köhler upon his arrival in July 2003, part of a four-nation African visit.

Germany is an open, export-oriented country, and its prosperity can be sustained only if there is peace, freedom, and political stability in the world—and for that to happen, poverty needs to be reduced.
—Horst Köhler

by a strong framework of rules and regulations and by sound institutions. Building the institutions of a market economy requires national ownership and consensus, not program conditionality.

IMF Survey: How about the IMF's involvement in low-income countries? Early on, you suggested that this wasn't a core area for the IMF. But after your first trip to Africa, you seemed to have a change of heart.

Köhler: We need to understand that we're living in one world, which is becoming ever more interdependent. The challenge of reducing global poverty is therefore everyone's challenge because no one is immune from its consequences, including disease, like HIV/AIDS, civil conflict, and international terrorism. I strongly believe that no continent, no country, no people, no culture should feel that it's isolated or not part of this one world. That is why I've always strived for evenhandedness in the IMF's approach, focusing on the problems of all of our member countries, regardless of their stage of economic development. As for Africa, on my first trip there, I was struck by the dignity of the people, especially the women, and their determination not to let themselves be crushed by poverty and hardship but rather to improve the lives of their families. I do think that the IMF—with its focused approach—can contribute to the fight against poverty. Of course, we're not alone in this effort, and we need to work closely with others, especially the World Bank.

Mande Sidibe, then Malian Prime Minister, greets Köhler upon his arrival in Bamako on February 18, 2001, for meetings attended by heads of state from West and Central Africa.

IMF Survey: The crisis in Argentina arguably represented the most difficult one the IMF faced in recent years. The IMF has been criticized for being too supportive of economic policies that, in hindsight, proved unsustainable in 2001. And the current economic program supported by the IMF has been perceived by some as falling short of what is needed to tackle fully Argentina's problems. How do you feel now about the IMF's involvement with Argentina?

Köhler: I think it is premature to come to a definitive judgment on our involvement with Argentina. A process of internal reflection is still going on, and the forthcoming report by the Independent Evaluation Office will also help the institution draw lessons from this experience. Of course, I feel sorrow that the IMF was not able to help avoid the crisis in 2001 and spare the Argentinean people all the trauma, hardship, unemployment, and poverty. But the roots of the crisis clearly lay very deep and extended well beyond the realm of economics. Looking ahead, the solution therefore cannot lie in simply more economic adjustment. We need to think in broader terms than just the growth rate and the size of the fiscal deficit. President Nestor Kirchner has said he wants to make Argentina a "normal" country again. I think we should give him credit for making significant progress in that direction: Argentina is experiencing a remarkable economic recovery, stronger and longer lasting than many had expected, and the government has drawn up a program of structural reforms. And I also believe the IMF deserves some credit for supporting Argentina in these difficult times and playing its part in helping Argentina regain the road to stability and rising living standards.

IMF Survey: Looking ahead, if elected, how would you like to shape your role as president of Germany?

Köhler: The president of Germany has a defined role in the constitution, which is mainly a representational role. He has no executive power—that is reserved for the chancellor and the political parties. On the other hand, the president isn't totally powerless. His power is the good argument, the capacity to see the big picture. But I also want to help find concrete answers to the key issues facing society. The president could and should speak up, and I will do so!

IMF Survey: You've been a strong supporter of the Monterrey Consensus, which calls for developing countries to adopt sound economic policies and improve governance and for developed nations to open up their markets and boost foreign aid levels. Would you use your new post to push these issues higher on both Germany's and Europe's political agenda?

Köhler: Monterrey is a major step forward because it marks a global consensus on the strategy to fight poverty. I won't forget what I said as Managing Director, and I won't change my mind as president of Germany because it's also in Germany's long-term interest to be an advocate of the Monterrey Consensus. Germany is an open, export-oriented country, and its prosperity can be sustained only if there is peace, freedom, and political stability in the world—and for that to happen, poverty needs to be reduced. ■

IMFC communiqué

Ministers urge cooperation in addressing global imbalances

Following is the text of the communiqué issued by the International Monetary and Financial Committee (IMFC) following the conclusion of its ninth meeting, which was held in Washington, D.C. on April 24, with Gordon Brown, Chancellor of the Exchequer of the United Kingdom, as its chair.

The Committee welcomes the strengthening of the global economic recovery since its meeting last September. Industrial production and global trade have picked up sharply, and improved prospects in most regions point to stronger global growth going forward. However, a number of risks remain. These arise from large global imbalances, medium-term fiscal challenges in many countries, and the implications of the eventual transition to a higher interest rate environment. Continuing geopolitical uncertainties and developments in oil markets also remain important concerns.

The priority now is to implement the macroeconomic and structural policy measures that will help achieve a robust, balanced, and sustainable recovery. Structural reforms are essential to improve growth potential. Priority should be given to medium-term fiscal consolidation; reforms of pension and health care systems; better functioning labor and product markets; and the reduction of vulnerabilities in banking and corporate sectors. The Committee calls on all countries and regions to play their part and cooperate in addressing global imbalances.

The economy of the United States is expanding briskly, and Japan's economy continues to recover. The recovery in the euro area so far is more subdued. Monetary policy in advanced economies will need to remain consistent with price stability and support the recovery; in many countries where growth is strengthening, interest rates will, over time, need to rise to more neutral levels; and it will be important to communicate policy intentions clearly. The Committee encourages countries to take advantage of the current environment to strengthen the foundations for sustainable growth. Priorities for action include medium-term fiscal consolidation in the United States, acceleration of structural reforms in the euro area, and continued banking and corporate reforms in Japan. Fiscal consolidation is also needed in the euro area and Japan.

The Committee is encouraged by the strong performance and recovery in many emerging market and developing countries, which have been aided by improved fundamentals and a rebound in private capital flows. Countries should continue to use the opportunity provided by the favorable financial market environment to strengthen growth prospects and reduce vulnerabilities. This will require steps to further strengthen fiscal positions and improve the structure and sustainability of debt, sustained and broad-ranging structural reforms, and, in some emerging market countries, a move toward more exchange rate flexibility as appropriate. The Committee welcomes the improvement in Argentina's macroeconomic performance and calls on the government to continue to push ahead with full implementation of the policies and provisions of its economic recovery program aimed at strengthening growth, including negotiations aimed at reaching a sustainable debt restructuring through a collaborative agreement with creditors.

IMFC Chair Gordon Brown (left) with U.S. Federal Reserve Board Chair Alan Greenspan.

Economic performance in many low-income countries continues to improve. Nevertheless, the Millennium Development Goals (MDGs) set out in the UN Millennium Declaration remain at risk, particularly in sub-Saharan Africa, and much remains to be done by all partners in the global effort to deliver them. The Committee underscores that stronger domestic institutions, sound economic policies, trade integration, and less burdensome regulation will be needed to underpin faster growth and poverty reduction. It welcomes the recent steps taken through the New Partnership for Africa's Development and the African Union to improve governance and eradicate corruption. It calls on the international community to provide additional and coordinated assistance—including technical assistance, policy advice, and increased and more effective aid, including grants, debt relief, and greater access to industrial country markets.

The Committee received the report of Dr. Supachai Panitchpakdi, Director-General of the World Trade Organization. It reiterates the critical importance of open markets for supporting broad-based global economic growth and prosperity. The Committee calls for constructive and determined efforts by all countries to achieve early progress with the Doha Round, focusing on the issues of importance to all countries of open markets and fair access and the reduction of trade-distorting subsidies in all areas, notably in agriculture. A successful completion of the round is a shared responsibility, important for all countries, particularly developing countries. The Committee supports the IMF's role in advocating trade liberalization and helping members to take all the necessary actions to gain full advantage of the opportunities provided by more open trade. It welcomes the IMF's decision to establish the Trade Integration Mechanism, designed as a temporary policy to address concerns associated with the current round of multilateral trade negotiations.

Crisis prevention and IMF surveillance

Effective and evenhanded IMF surveillance remains an essential element of the international community's efforts to enhance crisis prevention, promote financial stability, and foster high and sustainable growth. The Committee especially welcomes the increased focus of surveillance on financial sector and capital market issues—including the work from the Financial Sector Assessment Program, Reports on the Observance of Standards and Codes and Offshore Financial Center Assessments; economic developments and policies in countries of systemic or regional importance; early identification of potential vulnerabilities; and institutional foundations of growth. It also welcomes the work already under way and the proposed pilots on the treatment of public investment in IMF advice and arrangements with a view to protecting infrastructure investment, consistent with macroeconomic stability and debt sustainability.

Angolan Vice Finance Minister Job Graça (left) with Gabonese Finance Minister Paul Toungui at the IMFC meeting.

The Committee welcomes efforts to bring a fresh perspective to the surveillance of program countries and the decisions taken to increase the transparency of surveillance. It calls for a strengthening of efforts to ensure the objectivity of surveillance (including through debt sustainability analysis) and requests the IMF to explore ways to support countries' own economic efforts when the IMF is not providing financial assistance. The Committee looks forward to the forthcoming biennial review of surveillance, which should provide a thorough assessment and candid review, and propose ways to enhance the focus, quality, persuasiveness, impact, and overall effectiveness of surveillance.

The Committee welcomes the greater focus on vulnerabilities and key issues for surveillance identified at its meeting in Dubai: improving debt sustainability; reducing balance sheet vulnerabilities; and making progress on structural reform and sustainable medium-term fiscal frameworks. It agrees that further progress in these areas, as well as with policies to facilitate the adjustment of global imbalances, remain a key priority for surveillance in the coming year. Surveillance will also need to pay due attention to relevant political risks and to vulnerabilities to exchange rate and interest rate movements.

The Committee looks forward to further work on ways to reduce vulnerabilities and provide support for members with strong policies in dealing with external financial developments. It looks forward to the upcoming discussion of precautionary arrangements and their potential to assist members' own efforts to prevent balance of payments crises and as a possible exit strategy from IMF financial support.

The Committee welcomes the inclusion by an increasing number of countries of collective action clauses in their international sovereign bonds and the convergence toward a market standard. It calls on the IMF to continue to promote progress in this area. The Committee also encourages sovereign debtors and private creditors to continue their work on a voluntary code of conduct and looks forward to reviewing further work on issues of general relevance to the orderly resolution of financial crises. The Committee takes note of the Executive Board's ongoing review of the framework, and application of procedures, for exceptional access to IMF resources. It calls on the IMF to continue reviewing implementation of its lending into arrears policy.

IMF support for low-income members

The Committee reiterates that the IMF—in partnership with multilateral development banks and donors—has an important role to play in assisting its low-income members with effective policy advice, financing, and technical assistance to achieve high and sustained growth and poverty reduction. It welcomes the progress on better tailoring the IMF's assistance to the differing financing and policy needs of low-income countries. The Committee looks forward to further work on a strengthened process of surveillance for those countries where the IMF is not providing financing, with a view toward enhancing the signaling role of surveillance and promoting country ownership. It underscores the importance of improving the macroeconomic design of Poverty Reduction and Growth Facility (PRGF)-supported programs, including the social impact. The Committee underscores the importance of maintaining an adequate PRGF financing capacity. In order to meet future needs, it calls for further discussions on the financing of a self-sustained PRGF. The Committee welcomes that some countries have indicated a willingness to provide additional resources.

The Committee reiterates that the Monterrey Consensus and Poverty Reduction Strategy Paper (PRSP) approach provide the appropriate framework for the IMF's engagement with low-income countries and its participation in global efforts toward achieving the MDGs. It encourages a further sharpening of the focus of PRSPs and PRGF-supported programs to enhance their linkage to the MDGs and their operational usefulness for policy choices and donor coordination. The first *Global Monitoring Report* on meeting the MDGs highlights the remaining significant challenges. The Committee expresses concern that on current trends, most MDGs will not be met without an increase in the level and effectiveness of financial resources in support of strong policies. It looks forward to reviewing at its next meeting the ongoing joint work with the World Bank on aid effectiveness, absorptive capacity, results-based measurement mechanisms, and various policy options and financing mechanisms, such as an international financing facility and other options. In this regard, it welcomes the consultation with emerging markets and developing countries. The Committee welcomes the recent review of IMF–World Bank collaboration and supports the plans for improved coordination.

The Committee welcomes the progress in providing debt relief under the enhanced Heavily Indebted Poor Countries (HIPC) Initiative, with a further five countries reaching their completion points since the Annual Meetings. It looks forward to continued further progress toward full implementation of the initiative and takes note of the work being undertaken on options for addressing the sunset clause. The Committee urges all creditors that have not yet done so to deliver debt relief in full. It welcomes the development by the IMF and the World Bank of a debt sustainability framework for low-income countries and looks forward to further work to make it operational.

Other issues

The Committee underscores the importance of IMF technical assistance in supporting members' efforts to build institutional capacities and implement sound economic policies and financial systems, which will lay the foundations for sustained growth and poverty reduction.

The Committee underscores the importance of further determined action by the international community to combat money laundering and the financing of terrorism. It welcomes the significant progress that has been made under the 12-month IMF–World Bank pilot program of anti–money laundering/combating the financing of terrorism (AML/CFT) assessments. The Committee endorses the recent decision by the Executive Board to make the scope of the IMF's involvement in AML/CFT assessments comprehensive and a regular part of the IMF's work. It encourages all international organizations and bodies to work closely together in conducting assessments and delivering critically needed technical assistance. The Committee urges all members to adopt and implement the revised Financial Action Task Force (FATF) 40 + 8 recommendations as the accepted international standard.

In Washington, left to right: French Finance Minister Nicolas Sarkozy, Canadian Finance Minister Ralph Goodale, and U.S. Secretary of the Treasury John Snow confer.

The IMF's effectiveness and enhanced credibility as a cooperative institution also depend on all members having appropriate voice and representation. Efforts should continue to be made to enhance the capacity of developing and transition countries to participate more effectively in IMF decision making. The Committee calls on the Executive Board to continue its work on IMF quotas, voice, and representation and looks forward to a report on progress at its next meeting. The Committee recommends completion of the ratification of the Fourth Amendment.

The IMF's liquidity is adequate to meet the near-term projected needs of its members, although continued monitoring will be important.

The Committee welcomes the high-quality work of the Independent Evaluation Office and looks forward to its reports on PRSPs and PRGFs, technical assistance, and the role of the IMF in Argentina from 1991 to 2002.

The Committee pays tribute to Horst Köhler for his leadership of the IMF as Managing Director during the past four years. In the face of a difficult world economic situation and unprecedented challenges for the international community, Köhler has worked tirelessly to promote close international cooperation so that all can share in the benefits of globalization. He has strengthened the IMF's role in working for the stability of the international financial system, helped the IMF lead the international effort to assist low-income countries, and instilled a listening and learning culture in the IMF that will change the way in which the IMF interacts with members and civil society.

The Committee also acknowledges the contribution of Jacques J. Polak through 57 years of service to the IMF.

The next meeting of the IMFC will be held in Washington, D.C., on October 2. ■

IMFC press conference

International community only as strong as its weakest link in tackling terrorism finance

Following are edited excerpts from the International Monetary and Financial Committee (IMFC) press conference that took place on April 24 in Washington, D.C. Gordon Brown, Chair of the IMFC and Chancellor of the Exchequer of the United Kingdom, and Anne Krueger, Acting Managing Director of the IMF, participated in the press conference. The full transcript is available on the IMF's website (*www.imf.org*).

Brown: "Now that the world economy is strengthening, it is a good time to examine the performance of different fiscal policy mechanisms."

QUESTION: Could you give us some more details on the new International Finance Facility (IFF) proposed by the United Kingdom?

BROWN: The proposal involves the front-loading of aid based on existing donor commitments, on the basis of which the facility would leverage in additional money from international capital markets. The existing bilateral and multilateral channels for distributing aid would remain in place. We believe it is possible to raise the amount of aid from $50 billion a year—a figure that in real terms has been relatively constant for some time now—to $100 billion a year, leading to an effective doubling of aid. The Zedillo Commission, the World Bank, and a number of other agencies agree this is the sum that is needed to meet the Millennium Development Goals (MDGs).

As part of the Monterrey Consensus, countries agreed that any developing country that carries out necessary reforms such as opening up to trade and investment and dealing with corruption should not be denied resources to invest in education, health, and antipoverty programs that would enable it to meet the MDGs. So that is the spirit of the IFF. We discussed the IFF during our current meeting, and a number of countries supported the facility, but we will await a report by the IMF and the World Bank on this issue before taking the proposal further.

QUESTION: You mentioned a new international approach to fiscal rules in your statement to the IMFC, but I don't see this point in the communiqué.

BROWN: What I said this morning, speaking as the finance minister of the United Kingdom, was that, now that the world economy is strengthening, it is a good time to examine the performance of different fiscal policy mechanisms, during both the growth period of this economic cycle and the recent global downturn. I suggested we might compare existing fiscal discipline mechanisms—including the Stability and Growth Pact, the balanced budget rule, and the golden rule (which is the rule that guides British fiscal policy)—and see which of the different systems have been most helpful in moving economies through the global downturn. As you may know, the IMF is currently looking at fiscal policy and is working on a report that will be discussed at the IMF–World Bank Annual Meetings in October.

QUESTION: Is there a consensus within the IMFC that the IMF is the right institution to take on the responsibilities of combating terror financing and money laundering?

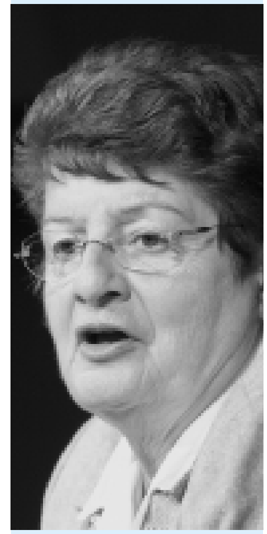
BROWN: The communiqué makes clear that all members of the IMFC support the IMF's surveillance of issues related to the financing of terrorism. An organization that has surveillance as one of its primary roles should be involved in dealing with this problem. The international community will only be as strong as its weakest link in tackling the financing of terrorism. That is why it is important for every country that has promised to implement legislation to address the financing of terrorism in the wake of 9/11 to actually do so—not just in terms of laws, which often have been passed, but in terms of implementing the laws. It is important for the IMF to be involved in assessing the effectiveness of these measures, and it is also important that it help build capacity in countries that would otherwise not be able to get to the source of terrorist financing. We cannot, as an international body, stand by, having made these promises, and allow them not to be implemented. At the same time, it is important that the monitoring work be published so that people know what is happening. Our role is to make sure the international community is more secure by dealing with one of the root causes of terrorism.

QUESTION: No international communiqué seems complete without a reference to the need to make progress on the Doha Trade Round. What specific steps do you think are necessary now to put trade talks back on track?

KRUEGER: There have been concerns from some of our member countries that their interests might be hurt if the Doha Round were completed. For instance, some countries worry they might lose their preferential access to industrial country markets while others worry that changes in commodity prices that might result from the Doha Round will hurt them. The IMF has undertaken research, provided to the World Trade Organization, in which we estimate the most likely range of such possible damage in the short run. In the long run, virtually all countries would benefit from trade liberalization. We have also developed the Trade Integration Mechanism, which was approved by the IMF Executive Board earlier this month. Under this facility, the IMF will be able to provide rapid financial assistance to any country that experiences a shortfall in its exports or an increase in commodity prices of its imports caused by multilateral trade liberalization.

QUESTION: The Group of Seven communiqué says that Argentina has made some progress but that more is required. Will there be an increase in the fiscal surplus, and will the government improve on the offer to its creditors that was presented at the IMF–World Bank Annual Meetings in Dubai?
KRUEGER: The primary surplus is a matter between the Argentine government and its creditors. In its letter of intent last September, the government committed to a target level for 2004 and agreed that it should continue on a rising trend. The government takes the view that there are several components that determine how much it can pay on debt service, and the primary surplus is only one. That, again, is subject to negotiation between Argentina and its creditors. As far as the IMF is concerned, whenever a country is in arrears, we want to be in a position to support it. In order not to prejudice other negotiations, we have a policy of lending into arrears that stipulates good faith negotiations. That is the extent of our concern.

QUESTION: What can the IMF offer Iraq after the transfer of sovereignty on June 30? Can you increase aid or otherwise enlarge your role?
KRUEGER: We are already assisting the Iraqis with working out their debt obligations and are helping them define a monetary framework and other economic policies. We will be able to continue providing technical assistance of that nature after the transfer of sovereignty. In addition, once Iraq acquires the appropriate institutions and mechanisms for carrying out policies, we might offer postconflict assistance and other financial support. ■



Krueger: "In the long run, virtually all countries would benefit from trade liberalization."

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04/54: "Boom-Bust Phases in Asset Prices and Fiscal Policy Behavior," Albert Jaeger and Ludger Schuknecht

04/55: "Banking in Sub-Saharan Africa: What Went Wrong?" Roland E. Daumont, Francoise Le Gall, and Francois Leroux

04/56: "Growth in the Middle East and North Africa," Dalia S. Hakura

04/57: "Measuring a Roller Coaster: Evidence on the Finnish Output Gap," Andreas Billmeier

04/58: "Does SDDS Subscription Reduce Borrowing Costs for Emerging Market Economies?" John Cady

05/59: "How Has NAFTA Affected the Mexican Economy? Review and Evidence," Ayhan Kose, Guy M. Meredith, and Christopher M. Towe

04/60: "Economic Integration, Sectoral Diversification, and Exchange Rate Policy in a Developing Economy," Gabriel Srour

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04/29: Gabon: Statistical Annex

04/30: Honduras: PRSP Progress Report

04/31: Algeria: Selected Issues and Statistical Appendix

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Development Committee communiqué

Concerted action needed to accelerate progress toward Millennium Development Goals

Following is the text of the communiqué issued by the Development Committee following the conclusion of its meeting, which was held in Washington, D.C., on April 25.

The strategies and decisions agreed in Doha, Monterrey, and Johannesburg set out a framework for fighting poverty and achieving the internationally agreed goals of the Millennium Declaration, based on countries pursuing sound policies and good governance, combined with stronger international cooperation and support. We met today to assess progress based on the first *Global Monitoring Report*. We welcomed the report, which provides a good basis for our yearly review. Building on this work, future reports should focus on the agenda of monitorable actions in the identified priority areas in order to reinforce accountabilities and enhance cooperation among all development partners.

On the dais at the Development Committee press conference are Ngozi Okonjo-Iweala (Nigerian Finance Minister and Chair of the Committee) and James Wolfensohn (President of the World Bank).

We recognize that there has been progress on many fronts, including significant reforms undertaken by developing countries and important gains in reducing income poverty. However, we are very concerned that, based on current trends, most Millennium Development Goals (MDGs) will not be met by most developing countries, particularly in sub-Saharan Africa. All parties, developing and developed countries and the international institutions, must urgently enhance concerted action to accelerate progress toward these goals.

Sustainable and inclusive growth needs to be accelerated in many developing countries, in particular through improving the enabling climate for private sector activity; strengthening reforms, capacity, and focus on results in public institutions and improving the quality of governance; scaling up effective investment in infrastructure; and ensuring access to health care, education, and other basic social services and fighting the HIV/AIDS epidemic.

Specific priorities must be determined at the country level in the context of country-owned and -monitored development strategies, as reflected in the Poverty Reduction Strategy Papers in the case of low-income countries and respective national strategy frameworks in middle-income countries. We look forward to reviewing progress on the Bank's efforts to enhance its support for development in middle-income countries at a future meeting. Given the centrality of faster and more equitable economic growth for making greater progress on the MDGs, we welcomed the efforts of the Bank to support stronger investment climates in developing countries, and we intend to discuss improving the climate for private sector activity at our next meeting. As we have noted previously, infrastructure investment within the right policy environment makes a fundamental contribution to economic growth and achievement of the MDGs. The implementation of the infrastructure action plan of the Bank has been reviewed by the Board of Directors, and we look forward to a discussion on progress at our next meeting.

Developed countries must meet their commitments to help accelerate progress. Sustaining stable, balanced, and strong growth in the global economy is a prerequisite. Ensuring a successful, prodevelopment, and timely outcome to the Doha Development Agenda is critical to global growth and the economic prospects of developing countries. We stressed our commitment to a constructive and determined effort to move the multilateral trade agenda forward. We again stressed that it is essential for developed countries to do more to liberalize their markets and eliminate trade distorting subsidies, including in the areas of agriculture, textiles, and clothing, which are of particular importance for developing countries. At the same time, we emphasized the importance of trade facilitation and liberalization efforts in developing countries. We welcomed the Bank's continuing efforts to promote trade facilitation and the Integrated Framework, as well as the IMF's recently adopted Trade Integration Mechanism, which will provide additional support and assurances to developing countries as they integrate further into the global trading system. We also urged continued efforts to tailor Bank lending activities to support capacity building and country-owned trade initiatives. We noted the growing importance of migration and, with it, workers' remittances and called for further work to improve understanding of their determinants and to create a supportive environment to enhance their development impact.

More aid is also required. It should be predictable, timely, long term, and more effective. We urged developed countries that have not done so to make concrete efforts toward the target of 0.7 percent of GNP as official development assistance. A substantial and timely agreement on the funding of the International Development Association (IDA) will be a critical affirmation of our commitment to mobilize the resources for our support for strong, results-oriented action by partners in the poorest countries.

We noted a progress report on financing modalities, and we look forward to a report at our next meeting on aid effectiveness, absorptive capacity, results-based measurement mechanisms, and elaboration of policy options and financing mechanisms for mobilizing additional resources (including examining an international finance facility, global taxation, and other proposals). More aid can be sustained only by showing positive results. This requires a strengthened effort to implement the Declaration of the Rome High-Level Forum on Harmonization and the Core Principles of Marrakech, including strengthening country capacity to manage for results. We support the work by the Organization for Economic Cooperation and Development's Development Assistance Committee (OECD/DAC), jointly with development partners, to address the continuing divide between agreed global policies and detailed operational procedures and country-level practices.

We also recalled that the international financial institutions are accountable for their contribution to implementing the Monterrey Consensus. Key areas for action include harmonization, managing for results, and responsiveness to clients. We urged them to increase their efforts to identify and meet needs of client countries. Taking into account fiscal constraints facing clients, we encouraged the Bank to consider innovative products, improve internal efficiencies, and simplify the application of lending policies in order to reduce the costs of doing business while respecting fiduciary and safeguard standards.

In April 2002, we endorsed the plan to help make primary education a reality for all children by 2015 and achieve gender equality in primary and secondary education by 2005. The Fast Track Initiative (FTI) was designed to address the data, policy, capacity, and resource gaps that constrain progress in achieving Education For All. Its implementation has highlighted the potential as well as the challenges associated with scaling up the MDG agenda more generally and, in particular, the need for credible, effective, and predictable financing in support of adequate policies and programs. The experience of the FTI so far has demonstrated that it should be anchored in countries' poverty reduction strategies if it is to be effective. We urged all countries, developed and developing, to take the additional steps required to make this initiative succeed and requested the Bank Board to continue to monitor progress.

We also reviewed implementation of the Heavily Indebted Poor Countries (HIPC) Initiative and recalled the importance of full creditor participation for its success. Thirteen countries have reached the completion point, and another 14 are between decision and completion point. However, 11 countries, several of which are affected by conflict and some with protracted arrears, have yet to either reach the decision point or begin establishing a track record under an IMF-supported program. We urged the World Bank and the IMF to help facilitate these countries' rapid access to HIPC debt relief when their outstanding issues are addressed. We also urged that careful consideration be given to options to deal with the HIPC sunset clause, which is scheduled to take effect end-2004.

Heidemarie Wieczorek-Zeul (right), Germany's Minister for Economic Cooperation and Development, meets with (from left to right) ZHU Guangyao (China's Executive Director at the World Bank), LI Yong (China's Vice Minister of Finance), and ZHAO Xiaoyu (Director-General, International Department, Ministry of Finance) at the Development Committee.

We broadly supported the principles underlying the proposed framework for debt sustainability in low-income countries while acknowledging that the modalities and operational implications remained to be clarified. We stressed the need for a consistent and coordinated approach among borrowers, creditors, and donors to ensure that resources to low-income countries are provided on appropriate terms, including the degree of concessionality and level of grant financing. This must build on full implementation of the HIPC Initiative. We also welcomed work by the IMF and the World Bank on measures and instruments to assist low-income countries in dealing with exogenous shocks and urged them to accelerate their work, in close collaboration, for early consideration by the Boards.

Strengthening the voice and participation of developing and transition countries in the work and decision making of the Bretton Woods institutions remains a major challenge. We welcomed the further progress, particularly on capacity building, made since our last meeting, including the establishment of the Analytical Trust Fund to support the African chairs and a secondment program at the Bank. We look forward to receiving reports from our Boards on all aspects of this issue and to further discussion at the 2004 Annual Meetings.

The next meeting of the Committee will be held in Washington, D.C., on October 3. ■

Photo credits: Denio Zara, Padraic Hughes, Eugene Salazar, and Michael Spilotro for the IMF.

Group of Seven communiqué

Progress on Doha Round imperative for faster growth, reduced poverty

Following is the text of the communiqué issued by the Group of Seven following its meeting in Washington, D.C., on April 24.

The global economic recovery has continued to strengthen and broaden since we met in February. Prospects are favorable, and although risks remain, such as energy prices, overall the balance of risks to the outlook has improved. Additional pro-growth reforms are essential to deliver stronger and more balanced global growth, boost employment, and raise incomes. As part of the Agenda for Growth, we discussed our priorities for tax and labor market reforms. We reaffirmed our commitment to sound public finances and monitored implementation of strategies for sustained medium-term fiscal consolidation as economies recover. Progress in these fiscal areas and in the Agenda for Growth are key to addressing the current global imbalances. To deliver faster and more widespread global growth and to fight global poverty, rapid progress on, and early conclusion of, the Doha Round is imperative and will require action by all parties to resolve key outstanding issues.

We reaffirm that exchange rates should reflect economic fundamentals. Excess volatility and disorderly movements in exchange rates are undesirable for economic growth. We continue to monitor exchange markets closely and cooperate as appropriate. In this context, we emphasize that more flexibility in exchange rates is desirable for major countries or economic areas that lack such flexibility to promote smooth and widespread adjustments in the international financial system, based on market mechanisms.

Economic fundamentals have improved in many emerging market countries. Yet sustained and sound policies are essential to support lasting growth and reduce external vulnerabilities. In the case of Argentina, progress has been made, but further progress is required.

In developing countries, the private sector is key to growth and poverty reduction. Small businesses play a critical role, but unfavorable business climates are often a constraint. We call on the multilateral development banks (MDBs) to accelerate the development of joint action plans with governments to improve investment climates and scale up their support for small businesses with specific measurable results. The Group of Seven met entrepreneurs from developing countries and reiterated support for their efforts. We urge private sector views to be consistently included in MDB assistance plans. On remittances, we will continue to work on our initiatives to reduce barriers that raise the cost of sending them and to integrate remittance services in the formal financial sector. We are committed to working with governments, the private sector, and the MDBs to broaden access for families and entrepreneurs to financial services.

Official development assistance, including more effective use of grants, will remain key. We reaffirm our commitment to fight global poverty and to help countries achieve the international development goals of the Millennium Declaration through our work on debt sustainability, aid effectiveness, absorption capacity, and financing facilities.

As part of the preparation for the Sea Island Summit [in Georgia, United States, on June 8–10] and to mark the 60th anniversary of the Bretton Woods institutions, we continued our strategic review of these institutions. Our focus is on giving clarity to official sector policy and objectives, and increasing accountability and country ownership. We are committed to improving the delivery and results of their programs and policies.

We met again with ministers from key countries to strengthen the fight against terrorist financing. We call on all countries to meet their commitments to tighten asset freezing regimes, prevent abuse of nonprofit organizations, and stop cash transfers used to finance terror. We strongly welcomed the IMF–World Bank commitment to comprehensive assessments. We reaffirmed our commitment to further enhance transparency and supervisory standards in financial markets, in particular, noncompliant offshore centers.

Economic growth and job creation in the greater Middle East are a shared priority. We will meet with regional ministers this evening to discuss their reform efforts and regional economic integration, including through financial reform and private sector growth. We stand ready to assist Iraq, Afghanistan, and West Bank and Gaza in their development efforts. We reviewed progress on the Afghanistan Action Plan, including the positive results of the Berlin conference. We call on others to join us in reducing the debt burdens of Iraq and Afghanistan. ■

Selected IMF rates

Week beginning	SDR interest rate	Rate of remuneration	Rate of charge
April 12	1.61	1.61	2.13
April 19	1.60	1.60	2.11
April 26	1.62	1.62	2.14

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. The rate of remuneration is the rate of return on members' remunerated reserve tranche positions. The rate of charge, a proportion of the SDR interest rate, is the cost of using the IMF's financial resources. All three rates are computed each Friday for the following week. The basic rates of remuneration and charge are further adjusted to reflect burden-sharing arrangements. For the latest rates, call (202) 623-7171 or check the IMF website *(www.imf.org/cgi-shl/bur.pl?2004)*.

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

Data: IMF Finance Department

Group of 24 communiqué

Enhanced legitimacy of IMF and World Bank linked to greater voice for developing countries

Following is the text of the communiqué issued by the Intergovernmental Group of 24 on International Monetary Affairs and Development after the conclusion of their meeting in Washington, D.C., on April 23.

Ministers welcome the strengthening in global growth prospects but note that the recovery faces some significant downside risks, such as massive payments imbalances, an impending transition to a higher interest rate environment, and persistent geopolitical concerns. They note that while economic activity has strengthened in several regions, the gains have been unevenly spread, with growth in sub-Saharan Africa, in particular, falling well short of the requirement for achieving sustained poverty reduction and reaching the Millennium Development Goals (MDGs).

Ministers consider that while the U.S. fiscal expansion, combined with a stimulative monetary stance, has helped defuse deflationary tendencies and supported the global recovery, more resolute and credible action than currently envisaged will be required to put the fiscal balance on a sustainable footing and address the large current account deficit. This would help to minimize the risk of disorderly exchange rate movements and a sharp increase in interest rates that would undermine the global recovery. Ministers believe that higher growth in the European Union is essential to the continuation of the global recovery process and see a need for a more accommodative monetary policy stance and for a deepening of structural reforms. They welcome the incipient recovery in the Japanese economy and urge the authorities to address the lingering imbalances in the financial and corporate sectors to help boost domestic sources of growth. Ministers recognize the strong contribution that the Asian emerging market economies are making to the global recovery and encourage a greater role for these countries in international economic policy coordination.

Ministers consider that to effectively address global imbalances, a cooperative multilateral approach is essential and call upon the IMF to undertake a more proactive role in the surveillance of major economies and to establish mechanisms to ensure the effectiveness of this surveillance.

Ministers consider that in order to support growth and competitiveness in emerging and developing countries, IMF policy advice should allow for higher levels of investment in infrastructure. In particular, the IMF should ensure that financing from multilateral development banks for infrastructure investment, as well as the investment of commercially run public enterprises, is accommodated in the assessment of the fiscal stance of developing countries. Ministers welcome the World Bank's Infrastructure Action Plan to step up support to developing countries through increased infrastructure lending.

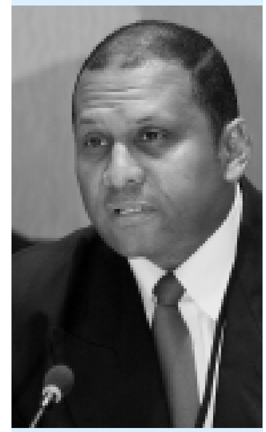
Ministers are concerned about the worsening security and economic situation in Iraq and urge the United Nations to play an active role in addressing the political, economic, and social problems of the country. They also express deep concern about the deteriorating situation in the occupied Palestinian Territories, the construction of a wall in the West Bank, and the adverse social and economic ramifications for the Palestinian people. Ministers call on the IMF and the World Bank to intensify their commendable assistance to the Palestinian people. Ministers welcome donors' commitment to provide Afghanistan with the necessary assistance for the country's rebuilding plans.

Trade

Ministers underscore the importance of trade to support the balanced growth of the international economy, the further reduction of external vulnerabilities of developing countries, and the achievement of the MDGs. They call for the early and vigorous resumption of the Doha Round of multilateral trade negotiations, which should result in improved market access for developing country exports, the dismantling of tariff escalation schemes, the phasing out of subsidies in agriculture, and the removal of quotas and tariffs in such areas as textiles, clothing, and agricultural products. Ministers consider that the advancement of the Doha Round should not be delayed by lack of progress on the Singapore issues. They welcome the IMF's establishment of the Trade Integration Mechanism to help members facing adjustment costs from trade liberalization. Ministers emphasize that, to be effective, this policy should permit higher access to IMF resources, be implemented with flexibility, and be supported by technical assistance. They also welcome the advocacy role being played by the Bank, as well as its capacity-building analytical work aimed at assisting developing countries in advancing their trade agenda.

Crisis prevention and resolution

Ministers welcome the return of financial flows to emerging markets, which in 2003 reached the highest level since 1999. This resumption of flows reflects the improved policy performance in those countries, as well as the increased liquidity of global financial markets. Ministers welcome the steps taken by emerging market economies and other developing countries to reduce their vulnerabilities to financial crises, including the buildup of large international reserves, improvements in their policy frameworks, a gradual shift toward flexible exchange rate regimes where warranted, and the continuation of structural reforms. They consider that



At a press conference, Chair of the Group of 24, Conrad Enill, noted that "a necessary condition for achieving the MDGs is a doubling of official development assistance."

an important additional component of crisis prevention is the provision of timely and sufficient financial support by the IMF to prevent contagion and maintain market confidence. In this regard, Ministers regret the decision to terminate the IMF's Contingent Credit Line instead of improving its design to make it usable. Recognizing the volatility of financial flows, they urge the IMF to establish a new facility designed for the prevention of capital account crises.

Ministers note with concern the devastating effect that commodity price shocks often have on developing countries, and low-income countries in particular. They call for an early reform of the IMF's Compensatory Financing Facility to make it usable and call on the World Bank to develop instruments to assist countries in dealing with commodity price risks. Ministers call for more technical assistance from multilateral institutions to assist low-income countries in diversifying their economies.

Ministers welcome the increasing use of collective action clauses (CACs) in sovereign bond contracts. They note that the voluntary approach has worked well in disseminating the use of CACs and has successfully enhanced the tool kit for crisis resolution.

IMF–World Bank decision making

Ministers express strong disappointment about the lack of progress on the issues of voice, participation, and voting power of developing countries in the IMF and the World Bank. Noting the conclusions of the March 2004 Johannesburg meeting of the African Governors on voice and participation of developing and transition countries in the Bretton Woods institutions, they reiterate that, in order to enhance the legitimacy of the IMF and the World Bank, the underrepresentation of developing countries in the decision-making processes of these institutions should be seriously and promptly addressed, as agreed in the Monterrey Consensus. Ministers consider that strengthening the representation of developing countries requires a new quota formula. Such a formula should take into account the vulnerabilities of developing countries, in particular sub-Saharan countries, and reflect correctly the relative economic positions of countries in the world economy by computing gross national income on a purchasing power parity basis.

In addition, basic votes should be substantially increased to restore their original role in relation to total voting power. Ministers call for the completion of work on these issues by June 2006. To this end, they call on the Executive Boards of the IMF and the World Bank to appoint an expert group to work on these issues and to produce a report within six months. Ministers invite any additional ideas on these issues to be forwarded to the Executive Boards.

Ministers are particularly concerned that the selection process for the managing director of the IMF continues to fall far short of the standards of good governance, transparency, and inclusiveness widely advocated by the IMF and the World Bank in their relations with member countries. This is inimical to the legitimacy, accountability, and credibility of the institutions. Ministers join the call by two-thirds of the member countries and large sections of the international community for an open and transparent selection process to attract the best candidates regardless of nationality, as called for in the April 2001 joint report of the working groups of the Executive Boards of the IMF and the World Bank. Ministers recall that the report was endorsed in 2001 by the IMF and World Bank Executive Boards as guidance for the future selection of the heads of the two institutions and was noted by the International Monetary and Financial Committee.

Achieving the MDGs

Ministers express serious concern that, on current trends, most MDGs will not be met by most countries, as outlined in the *Global Monitoring Report*. They therefore call for a scaling up of action toward implementation of the Monterrey partnership by all parties. Ministers note that while developing countries are doing their part in terms of macroeconomic stabilization and structural reforms, developed countries are lagging behind in fulfilling their commitments made in Monterrey. In particular, despite the recent nominal increase in official development assistance, there has not been a significant increase in real resources to the poorest countries, and aid flows are still far short of the UN target of 0.7 percent of GNP. Ministers note with concern that financial flows from the World Bank and regional development banks have declined in recent years, giving rise to a continuing net negative transfer of resources to developing countries from the multilateral development banks.

Ministers emphasize that the achievement of the MDGs requires a stepping up of the allocation of financial resources consistent with the commitments made in Monterrey. Accordingly, they welcome the conclusions of the recent Paris meeting on Financing for Development, which called for additional, better-harmonized, and more predictable development assistance. Ministers strongly support the proposed International Finance Facility to scale up and frontload resources to meet the MDGs and urge donors to implement the proposal. In addition, Ministers urge further work on the creation and voluntary redistribution of additional SDRs and on global taxation options. Moreover, donor countries should improve the harmonization and coordination of their aid practices to align aid with recipient country priorities so that these countries do not have to meet multiple qualifications set by donors.

Ministers welcome the progress in implementing the Education for All Fast Track Initiative launched in June 2002. They acknowledge that this gives hope for the achievement of the MDG of universal primary education. However, Ministers note that the remaining challenges, particularly the issue of financing, need to be urgently addressed.

Ministers look forward to further progress on the development of a framework for debt sustainability in low-income countries and stress that such a framework should lead to an increase in aid flows and an improvement in the terms and conditions of those flows. In addition, Ministers support the extension of the enhanced Heavily Indebted Poor Countries (HIPC) Initiative beyond its expected expiration in December 2004. They welcome the amendment to the Poverty Reduction and Growth Facility (PRGF)–HIPC Trust instrument to provide for full topping up in cases where the member country's debt parameters were affected by exogenous factors. Ministers also look forward to the mobilization of additional resources under the self-sustained PRGF.

Ministers welcome the World Bank's action plan for enhancing support to middle-income countries, which have a large proportion of the world's poor. They call for increased development financing to support large unmet social needs and infrastructure investment to help these countries meet the MDGs. This assistance should be provided on a flexible basis and on concessional terms.

Expression of appreciation for Köhler

Ministers express their appreciation for the valuable service provided by Horst Köhler during his tenure as Managing Director of the IMF. In particular, they recognize his dedication to resolving the problems of developing countries. Ministers wish him every success in his future endeavors.

The next meeting of the Group of 24 Ministers is expected to take place on Friday, October 1, in Washington, D.C. ■

African finance ministers press conference

Rich countries urged to provide more aid, trade, and debt relief and less hypocrisy

On April 24, four African finance ministers briefed the press in Washington, D.C., on some of the main development challenges facing Africa and raised concerns that insufficient progress had been made in increasing Africa's voice at the Bretton Woods institutions. During their discussion, Bohoun Bouabre (Minister of Finance for Côte d'Ivoire), Elzubier Ahmed Elhassan (Minister of Finance and National Economy for Sudan), André Philippe Futa (Minister of Finance for the Democratic Republic of Congo), and David Mwiraria (Minister of Finance for Kenya) emphasized the obstacles rich countries' policies pose to Africa's ability to meet the UN Millennium Development Goals (MDGs).

All four participating ministers cited shortfalls in development aid as the main reason African countries are not making sufficient progress toward the MDGs. Elhassan said that "African countries are committed to stay the course of adjustment and reform, but they need the full support and the commitments made in the Monterrey Consensus to increase concessional aid and debt relief and to foster technology transfer." Futa added a request that the Bretton Woods institutions, together with the Group of Eight and Group of 15, reconsider the amounts of aid that need to be disbursed in order to "start development with multiplier effects."

Expanded trade was also cited as a critical priority for Africa to diversify its economies, increase growth, and make progress toward achieving the MDGs. Mwiraria and Futa echoed Elhassan's lament that rich countries' highly discriminatory trade barriers pose a continuing impediment to development. Notably, the systematic escalation of tariffs on higher-value imports from developing countries impedes private sector development and export diversification in low-income countries. Mwiraria singled out agriculture as a sector in which African countries are competitive yet nevertheless face severe constraints that make it difficult for them to compete fairly in world markets.

Incoherence and hypocrisy

The finance ministers also raised a concern about the lack of coherence in developed country policies. All too often, contradictions in policies mean that support for development provided in one area is defeated by actions in another, noted Elhassan, citing the example of the $58 billion in aid pledged by Organization for Economic Cooperation and Development (OECD) countries that is undermined by five times as much protection provided to these countries' domestic agricultural producers. These subsidies by developed countries lack any economic rationale, Futa argued, and a dialogue "based on true partnership" would require that developed countries stop this "hypocrisy."

"Many African countries are implementing reforms to strengthen their macroeconomic frameworks and ensure that economic decisions are struc-

Elhassan: "African countries are committed to stay the course of adjustment and reform, but they need the full support and commitments made in the Monterrey Consensus."

Futa: Africa's population—both current and projected—should be taken into consideration in determining the region's voice within the international financial institutions.

Mwiraria: African countries are competitive in the agricultural sector but they face severe constraints that make it difficult for them to compete fairly on world markets.

tured and based on policies that are truly adapted to today's world," remarked Futa, responding to a journalist questioning whether foreign investors are deterred by conflict on the continent and a poor business environment. But instability in the Middle East and the reconstruction of Iraq are negatively affecting Africa directly and indirectly, explained Elhassan, sidelining Africa's development priorities and slowing both aid and foreign direct investment flows.

And while foreign direct investment is essential for poverty alleviation and job creation, progress will not be made unless the debt problem is dealt with, Elhassan noted. In underscoring the additional assistance required for African countries to meet the MDGs, the four ministers drew attention to the need for further action to decrease the debt burdens of African countries, including those not eligible to participate in the Heavily Indebted Poor Countries (HIPC) Initiative. A second key area in which African countries are looking for support from the World Bank and the IMF is in developing the means of financing their economies, taking into account that "the traditional financing tools do not always work in Africa," Bouabre said.

Strengthen Africa's voice

Calling for a more effective and representative voice for Africans "at the table where decisions are being made," African finance ministers urged the setting of a clear timetable to speed completion of work toward enhancing their countries' voting power and participation at the IMF and the World Bank. This would also significantly facilitate the search for solutions to

Available on the web (www.imf.org)

Press Releases

04/72: The IMF and the World Bank Support $1.2 Billion in Debt Relief for Niger Under the Enhanced HIPC Initiative, April 8

04/73: IMF Executive Board Approves Trade Integration Mechanism, April 13

04/74: IMF Executive Board Completes First Review of Paraguay's Stand-By Arrangement, April 12

04/75: IMF Staff Statement at the Conclusion of a Mission to Bulgaria, April 13

04/76: IMF Completes Seventh Review and Approves $495 Million Disbursement Under Stand-By Arrangement with Turkey, April 16

04/77: Statement By David Burton, Director of the IMF's Asia and Pacific Department, on the Second Phase of the Asian Bond Fund Initiative, April 18

04/78: IMF and World Bank Support $850 Million in Debt Service Relief for Senegal, April 19

04/79: Vanuatu Formally Begins Participation in the IMF's General Data Dissemination System, April 20

04/80: IMF Alternate Executive Director O'Loghlin Nominates Rodrigo Rato as Candidate for the Post of Managing Director of the IMF, April 22

04/81: IMF Staff Statement on the Conclusion of the Third Review Discussions Under Colombia's Stand-By Arrangement, April 23

04/82: IMF and the World Bank Support Ethiopia's Completion Point and Approve Topping Up of Debt Relief Under the Enhanced HIPC Initiative, April 22

04/83: The IMF Executive Board to Hold Informal Meeting on April 27 to Discuss Next Steps in Consideration of Candidates for the Post of Managing Director of the IMF, April 22

04/84: Communiqué of the International Monetary and Financial Committee of the Board of Governors of the IMF April 24 (see page 117)

04/85: IMF/World Bank Report Calls for Urgent Action on Poverty Reduction by All Countries, April 22

04/86: Communiqué by the African Governors at the IMF, April 25 (see page 127)

Public Information Notices

04/26: IMF Executive Board Discusses Lessons from the Crisis in Argentina, March 24

04/27: IMF Concludes 2003 Article IV Consultation with Malaysia, March 24

04/28: IMF Concludes 2003 Article IV Consultation with Panama, March 26

04/29: IMF Concludes 2003 Article IV Consultation with the Philippines, March 30

04/30: IMF Concludes 2003 Article IV Consultation with Norway, March 31

04/31: IMF Concludes 2003 Article IV Consultation with Spain, April 2

04/32: IMF Concludes 2003 Article IV Consultation with São Tomé and Príncipe, April 2

04/33: IMF Executive Board Establishes Standard for Anti-Money Laundering and Combating the Financing of Terrorism Assessments, April 2

04/34: IMF Discusses Operational Framework for Debt Sustainability in Low-Income Countries, April 5

04/35: IMF Concludes Review of the Compensatory Financing Facility, April 7

04/36: IMF Discusses Strengthening IMF–World Bank Collaboration on Country Programs and Conditionality—Progress Report, April 7

04/37: IMF Executive Board Reviews Data Provision for Surveillance, April 12

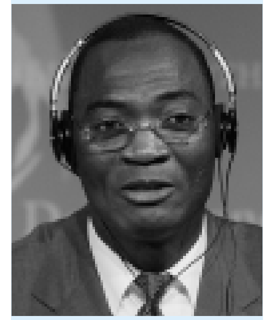
04/38: IMF Concludes 2003 Article IV Consultation with Belize, April 16

04/39: IMF Concludes 2003 Article IV Consultation with the Central African Republic, April 14

04/40: IMF Concludes Discussion on the Fund's Support of Low-Income Member Countries: Considerations on Instruments and Financing, April 15 the region's problems, emphasized Elhassan, who expressed disappointment at the lack of visible progress so far.

Elhassan was joined by Bouabre and Futa in calling for an increase in African countries' basic votes in the IMF and the World Bank to at least their original level in the early 1960s, as well as additional representation on the Boards of Executive Directors. Because the quality and availability of economic data can be poor in some African countries, Futa noted, it may be difficult to get a true gauge of Africa's position within the Bretton Woods institutions. Futa argued that other criteria should be taken into consideration, such as Africa's population—both current and projected—in determining the region's voice within the international financial institutions. The participating finance ministers also urged the IMF to create an additional position of Deputy Managing Director with a portfolio focus on Africa and to increase recruitment of qualified African professional staff at the IMF and the World Bank, especially at senior levels.

These recommendations to increase the voice of African countries in the IMF were reiterated by African finance ministers during a meeting held the following day with Rodrigo Rato, Spain's former finance minister and a candidate for the post of IMF Managing Director. While stating that he and the other finance ministers from sub-Saharan African countries welcomed the nomination of Rato to the post, Elhassan expressed hope that the IMF's new Managing Director would make frequent visits to the region and hold meetings with the African constituencies to better understand the enormous problems they face. ■



Bouabre: African countries' basic votes in the IMF and the World Bank should be increased to at least their original level and their Executive Board representation should be expanded.

04/41: IMF concludes 2003 Article IV Consultation with Singapore, April 26
04/42: IMF Concludes 2003 Article IV Consultation with Côte d'Ivoire, April 21
04/43: IMF Concludes 2002 Article IV Consultation with Guinea, April 23
04/44: IMF Reviews Romania's Performance Under Past Fund-Supported Programs, April 23
04/45: IMF Executive Board Holds Informal Seminar on Public Investment and Fiscal Policy, April 24

Speeches

"What Lies Ahead for Asia's Emerging Markets?" David Burton, Director of the IMF's Asia and Pacific Department, 2004 Credit Suisse–First Boston Asian Investment Conference, Hong Kong, March 23
"Meant Well, Tried Little, Failed Much: Policy Reforms in Emerging Market Economies," Anne O. Krueger, IMF Acting Managing Director, Roundtable Lecture at the Economic Honors Society, New York University, New York, March 23
"Latin America: Sustaining Reforms and Growth," Anoop Singh, Director, IMF Western Hemisphere Department, Investors' Meetings, Inter-American Development Bank, Lima, Peru, March 27
"Argentina: Remaining Economic Challenges,"Anne O. Krueger, IMF Acting Managing Director, American Enterprise Institute, Washington, D.C., March 31
Remarks by Anne O. Krueger, IMF Acting Managing Director, Opening Session, Ministerial Conference on Financing for Development, Paris, April 8
Farewell Remarks by Horst Köhler, Former IMF Managing Director, Dinner Hosted by the IMF Executive Board, Washington, D.C., April 14

Statements at Donor Meetings

Statement by Mohsin S. Khan, Director, IMF Middle East and Central Asia Department, Pakistan Development Forum, Islamabad, March 19
"Afghanistan and the International Community—A Partnership for the Future," Agustín Carstens, IMF Deputy Managing Director, International Donors' Conference on Afghanistan, Berlin, March 31

Transcripts

Press Briefing by Thomas C. Dawson, Director, IMF External Relations Department, March 25, April 8
Press Conference on the *Global Financial Stability Report*, Gerd Häusler, Counsellor and Director, and Hung Tran, Deputy Director, IMF International Capital Markets Department, April 6
Teleconference with Journalists on the "Trade Integration Mechanism," Hans Peter Lankes, Trade Policy Division Chief, IMF Policy Development and Review Department, April 13
Teleconference Call on the April 2004 *World Economic Outlook* Analytic Chapters, April 14
Conference Call on Turkey, April 16
Press Conference on *World Economic Outlook*, April 21
Press Conference Ahead of the 2004 Spring Meetings of the IMF's International Monetary and Financial Committee, with IMF Acting Managing Director Anne O. Krueger, and Thomas C. Dawson, Director, IMF External Relations Department, April 22
Press Conference of the Intergovernmental Group of 24 on International Monetary Affairs and Development (Group of 24), April 23
Press Conference on Latin America By Anoop Singh, Director, IMF Western Hemisphere Department, April 23
Press Conference of African Finance Ministers, April 24
Press Conference following the International Monetary and Financial Committee Meeting, April 24
Press Conference on Central Europe's Adoption of the Euro with Susan Schadler, Deputy Director, European Department, April 24

Communiqués

Development Committee, April 25 (see page 122)

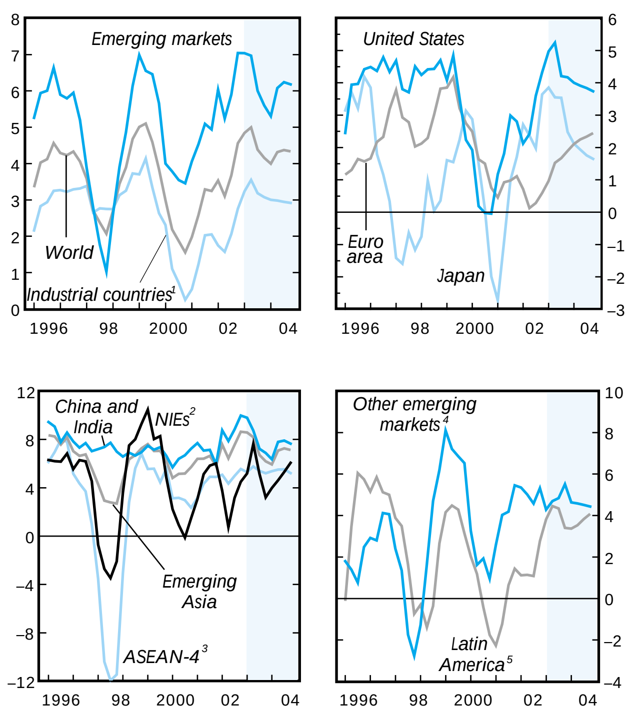
World Economic Outlook

World economy blossoming: *WEO* forecasts 4.6 percent growth for 2004

The world economy is in the springtime of recovery, Raghuram Rajan, IMF Economic Counsellor and Director of the Research Department, observed at an April 21 press conference releasing the April 2004 *World Economic Outlook (WEO)*. "The tentative buds of six months ago are now blooming in many parts of the world," he added, citing a strong rebound in world trade; a robust U.S. recovery; continued exceptionally strong growth in emerging Asia, especially China; and the strongest showing for the Japanese economy since 1996.

Global recovery has strengthened and broadened, led by the U.S. and Asia

(real GDP, percent change from four quarters earlier)



Note: Shaded areas indicate projections.
[1]Australia, Canada, Denmark, euro area, Japan, New Zealand, Norway, Sweden, Switzerland, the United Kingdom, and the United States.
[2]Hong Kong SAR, Korea, Singapore, and Taiwan Province of China.
[3]Indonesia, Malaysia, the Philippines, and Thailand.
[4]Bulgaria, Czech Republic, Estonia, Hungary, Israel, Latvia, Lithuania, Pakistan, Poland, Romania, Russia, Slovak Republic, Slovenia, South Africa, Turkey, and Ukraine.
[5]Argentina, Brazil, Chile, Colombia, Mexico, Peru, and Venezuela.

Amid multiplying signs of a vibrant global economy, the *WEO* raised its forecast for global growth in 2004 by about 0.5 percentage point to 4.6 percent, and projected growth of 4.4 percent in 2005, Rajan said, noting that "if all goes as expected, we are in for the best two-year period in over a decade."

Among the industrial countries, the United States has led the way. Most forward indicators point upward, and the *WEO* projects U.S. growth for 2004 at 4.6 percent. Japan's recovery also shows remarkable strength, Rajan observed, with strong external demand, notably from China, accompanied by rising investment and, recently, a pickup in consumption. The *WEO* projects Japanese GDP will grow by 3.4 percent in 2004—the highest rate since 1996. In response to a question, Rajan said Japan had moved from export-led growth to investment, and there were signs of consumption picking up, which led the *WEO* team to believe that there may be greater strength in this recovery than in the false dawns of the last decade. There has been a fair amount of restructuring on both the corporate and banking sides, and this has helped Japan. At this juncture, however, getting rid of deflation remains a fundamental macroeconomic objective, and the *WEO* counsels Japan to keep its expansionary monetary policy in place until deflation is history.

The euro area, however, is still experiencing wintry conditions, Rajan said, with prospects much less favorable than in the United States and Japan. Only a modest expansion, of 1.7 percent, is projected for the euro area in 2004. Rajan told reporters that there might be room for a further interest rate cut by the European Central Bank, though such a step would not perform magic on the region's economies. Other important steps—notably, structural reforms—are critical.

Strong growth in emerging Asia

Moving to emerging markets and developing countries, Rajan pointed to the particularly strong performance of emerging Asia, where China's growth—projected to be 8.5 percent in 2004—has been key. Asked whether the IMF had been aggressive enough in encouraging China and other Asian economies to move to more flexible exchange rates, Rajan underscored that the IMF had been pointing out that more flexibility would be in these countries' own interests, putting a lid on inflation and encouraging more rational investment decisions. But it is an open question whether currency appreciation would completely cure excessive investment in China; traditional methods of limiting bank loans for such investment might not work because some decisions are not being made on the basis of profitability.

Exchange rate flexibility should be a goal, but full convertibility at this point would be a mistake, Rajan explained. "China needs to deal with the problems in its financial system and clean them up before it moves to full convertibility," he said.

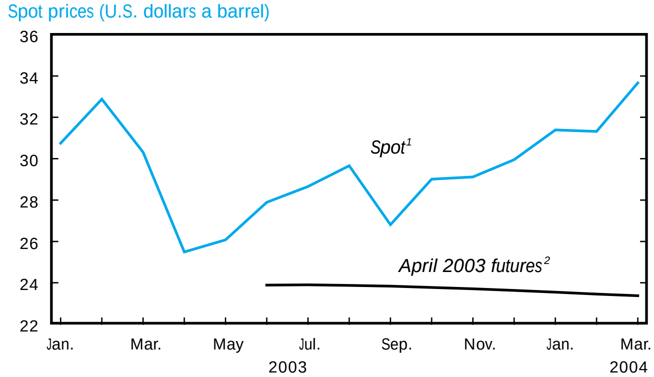
Elsewhere in Asia, India—with 7.4 percent growth in 2003 and 6.8 percent projected for 2004—is booming, too. Growth in Latin America, notably in Brazil, remained weak in 2003, but recovery is expected to consolidate in 2004, underpinned by strengthening domestic demand and global growth. The Middle East is projected to experience slightly slower GDP growth in 2004 than in 2003, at some 4.1 percent.

The Commonwealth of Independent States (CIS) grew strongly in 2003, underpinned by robust upturns in Russia and Ukraine. Growth in the CIS is projected to slow slightly to 6 percent in 2004. In Central and Eastern Europe, growth is projected to pick up but is constrained by the relatively weak performance of its chief trading partner, the euro area, and by the need for fiscal consolidation in some countries.

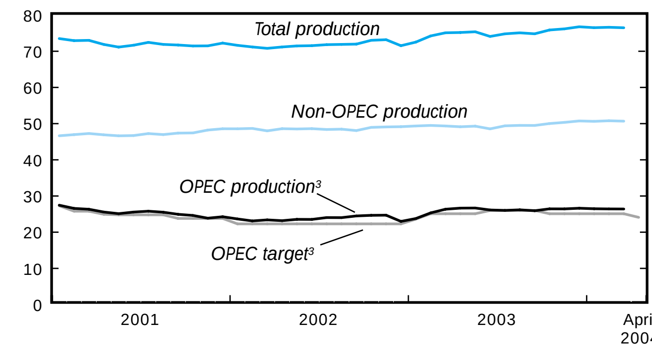
As for sub-Saharan Africa, GDP growth is expected to strengthen somewhat in 2004 to 4.2 percent, based on a combination of improved macroeconomic fundamentals, higher commodity prices, increased political stability, and better weather conditions.

Oil prices rising; production steady

Spot prices (U.S. dollars a barrel)



Oil production (millions of barrels a day)



[1]Average petroleum spot price of West Texas Intermediate, U.K. Brent, and Dubai crude.
[2]Five-day weighted average of NYMEX Light Sweet Crude, IPE Dated Brent, and implied Dubai Fateh.
[3]Excluding Iraq.
Data: International Energy Agency; Bloomberg Financial, LP; and IMF staff estimates.

Oil prices could pose risk to growth

In this rosy picture there remain risks to the short-term outlook, Rajan cautioned. Oil prices will have a negative effect on global growth if they remain at current levels or increase further. Every increase of $5 a barrel, if maintained for one full year, would lower global growth by about 0.3 percentage point, according to IMF staff estimates. But a lot depends on what causes the higher oil prices, Rajan noted. So far, oil price increases have resulted from strong demand, which itself would not derail recovery. What is worrisome is that there is not enough slack in supplies to withstand the withdrawal of a single major producer, which could happen because of geopolitical tensions in the Middle East or elsewhere.

There are other risks, too, Rajan continued. Expansionary monetary and fiscal policies have helped reduce the economic impact of the collapse of the asset bubble, the 9/11 attacks, and Severe Acute Respiratory Syndrome (SARS), but the policy options that helped then have been used up, leaving the world with limited insurance against fresh downside shocks. And global imbalances resulting in part from the use of these policy options have heightened the vulnerability of the world economy.

The growing integration of China and India into the world economy over the medium term, the longer-term integration of Africa, and the aging populations of the industrial countries will create both opportunities and challenges. Given that global uncertainties cannot be controlled, the answer is to be prepared, Rajan warned. The *WEO* advocates rebuilding policy options wherever possible and focusing on reducing vulnerabilities. In the medium term, economies must increase their flexibility: the ability to adapt to change is the best form of insurance. Specifically, given the current strong growth, most monetary authorities should start preparing the ground for higher policy interest rates, as some have already begun to do.

The United States is not the only economy that needs to consolidate its fiscal position, but it is the most important, Rajan noted, and the faster this consolidation is undertaken, the better. Fiscal tightening

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May 3, 2004

will also help reduce global imbalances—a significant vulnerability at this point. Stronger budgetary health will also prepare the United States to meet the pension needs and medical costs of the aging baby-boom generation.

Economies also need to become more flexible through structural reform, Rajan said. Chapter 3 of the *WEO* points out that the current period of recovery is a good time to embark on such reforms. Desirable structural reforms range from building stronger financial systems in Asia and creating greater labor market flexibility in Europe to reforming health care in the United States. These would help citizens the world over see coming changes as opportunities rather than threats. This would alleviate protectionist pressures, helping everyone secure a brighter future, Rajan predicted.

While Rajan said he did not see protectionism as being focused in just one country, the size of the U.S. economy means that an increase in U.S. protection would be of broad concern. Also, with the U.S. service sector newly subject to foreign competition through overseas outsourcing, a former champion of free trade is now getting worried. The threat of terrorism could also take its toll on trade, David Robinson, Deputy Director of the Research Department, added, since it makes moving goods across borders that much more difficult and time consuming.

All in all, Rajan concluded, the world has emerged from the winter of recession, but "the message of the latest *WEO* is that, instead of dancing the spring and summer away, we should make provisions for the future. Being the ant is boring, but it is prudent economics." ■

Raghuram Rajan (right) with James Morsink of the IMF's Research Department at the *World Economic Outlook* press conference: "If all goes as expected, we are in for the best two-year period in over a decade."

Marina Primorac
IMF External Relations Department

Copies of the April 2004 *World Economic Outlook* are available for $49.00 ($46.00 for academics) each from Publication Services. See page 121 for ordering information. The full text of the *World Economic Outlook* is also available on the IMF's website (*www.imf.org*), as is the full text of the *World Economic Outlook* press conference held on April 21.

Executive Board set to select new head of IMF

Mohamed El-Erian

Rodrigo Rato

On May 4, the IMF's Executive Board will take up the candidacies of Mohamed El-Erian and Rodrigo Rato to head the IMF. The Managing Director is the institution's chief executive officer, serving as head of the IMF's approximately 2,700 staff and as chair of the 24-member Executive Board, which is responsible for conducting the IMF's day-to-day business. The Board is also responsible for the selection of the Managing Director.

On April 28–29, the full Board met separately with each candidate. These meetings, which lasted several hours, allowed the Executive Directors to pose questions to the candidates. In addition to their meetings with the full Board, El-Erian, a former staff member of the IMF and currently a managing director of the private investment group PIMCO, and Rato, who until the recent election in Spain had served as that country's Minister of Finance, also held a number of meetings with individual Directors.

The procedures for the Board's selection of a new Managing Director are set out in the IMF's Articles of Agreement—its charter—but this simply states that "the Executive Board shall select a Managing Director who shall not be a Governor or an Executive Director." The Board is thus left with considerable discretion as to how to carry out the selection, but has typically reached a decision based on a consensus across the membership.