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In this issue

Spring meetings

IMFC sees global slowdown as short-lived, supports IMF's role in crisis prevention

Although short-term prospects for global economic growth have weakened significantly since September 2000, it is likely that the current slowdown will be short-lived, the International Monetary and Financial Committee (IMFC) stated in its communiqué following its April 29 meeting in Washington. While it acknowledged that the "downside risks have increased" since its last meeting in September 2000 (*IMF Survey*, October 9, 2000, page 314), the IMFC noted that "underlying inflationary pressures generally remain subdued." (For the text of the IMFC communiqué, see page 136.)

At the spring meetings are (left to right) World Bank President James Wolfensohn, IMFC Chair Gordon Brown, Development Committee Chair Yashwant Sinha, and IMF Managing Director Horst Köhler.

Speaking at a joint press conference with IMF Managing Director Horst Köhler following the meeting, IMFC Chair Gordon Brown, the U.K. Chancellor of the Exchequer, emphasized that "the approach to the slowing of the [global] economy is that we would be both forward looking and outward looking." He added: "There was a general recognition of our shared interests as a global community. We recognized that we should not retreat from cooperation but indeed should strengthen it."

In facing economic events, we should be vigilant, Brown said, but we should be forward looking in creating the conditions for growth, in maintaining the momentum for economic reform in our own national economies, and in continuing the pace of reform in the international financial architecture. In particular, he stressed the importance of the communiqué's call for "the resumption of multilateral trade talks [later in 2001] as important to the development of the world economy." (For an edited transcript of the IMFC press briefing, see page 140.)

IMF's crisis prevention role

The IMFC also gave its strong support to the Managing Director's proposals for improving the crisis prevention mechanisms of the IMF, stressing in its communiqué that "strong and effective crisis prevention is a top priority." Köhler said at the press briefing that the Committee's support for recent moves to refocus the IMF and for its current work program would "hasten our progress toward an IMF that is more effective, especially at crisis prevention and promoting financial sector stability." He also disclosed that agreement in principle had been reached at the meeting to provide IMF financial support for the new economic programs of Argentina and Turkey, both of which have recently been experiencing severe economic difficulties.

Brown responded to the critics of globalization by saying that "instead of retreating from global cooperation, we are strengthening it, and it is by strengthening global cooperation that we are better placed to deal with difficulties as they arise."

World economic prospects

To assist its review of world economic prospects, the IMFC had before it the IMF staff's latest projections in the *World* (Please turn to the following page)

(Continued from front page) *Economic Outlook* (see page 162 for a report on the press briefing conducted by Michael Mussa, the IMF's Economic Counsellor). In its communiqué, the IMFC noted

• a marked deceleration of economic activity in the United States. While it considered that the easing of monetary policy in recent months is timely and welcome, it said that monetary policy should remain directed at restoring growth potential while maintaining price stability;

• the introduction of a new monetary policy framework in Japan and underscored the importance of a commitment by the authorities to an expansionary policy stance until the risk of deflation could be eliminated;

• growth in the euro area as being relatively well sustained and underscored the importance of a further deepening and acceleration of structural reforms to boost longer-term growth potential;

• the adverse impact on other countries affected by both the slowdown in growth in the advanced economies and the deterioration of conditions in international financial markets. At the same time it noted that growth is expected to be relatively well maintained in China and India; and

• particular concern that the slowdown in global growth risks is having an adverse effect on the poorest IMF member countries. This requires both adequate flows of official development assistance and carrying forward the Heavily Indebted Poor Countries (HIPC) Initiative to deliver sustainable debt levels and open the markets of the advanced economies to the exports of developing countries.

Underscoring the importance of open markets to strengthen the global economy, the IMFC urged all countries—developed and developing—to find common ground for the launch of new multilateral trade negotiations in 2001. The Committee also expressed its unanimous view that a "recourse to protectionism would be the wrong response to the global economic slowdown and the attendant difficulties in particular sectors."

IMF in the process of change

The IMFC received a report from the Managing Director, "The IMF in the Process of Change" and said in its communiqué that the IMF is appropriately focusing on

• promoting macroeconomic and financial stability as a precondition for sustained economic growth;

• promoting the stability and integrity of the international monetary and financial system as a global public good; and

• helping its members develop sound financial sectors to protect against vulnerability, mobilize financing for productive investment, and take advantage of the opportunities of global financial markets.

The IMFC endorsed the efforts being made to strengthen collaboration between the IMF and other organizations, particularly the World Bank. It also noted the experience in applying the framework for private sector involvement in crisis prevention and management, with its reliance on voluntary, market-based approaches.

The Committee welcomed the appointment of Montek Singh Ahluwalia as Director of the IMF's new independent Evaluation Office (see press release, page 164). It also noted the draft report on the process of selecting the IMF's Managing Director and the President of the World Bank. (The text of this report is available on the IMF's website: www.imf.org.)

IMFC–Development Committee meeting

The communiqué issued following the joint meeting of the IMFC and the Development Committee reported that the two committees had focused their attention "on progress in strengthening this partnership [of the IMF and the World Bank] in fighting poverty and strengthening growth in the world's poorest countries." (For the text of the IMFC–Development Committee communiqué, see page 144).

At the press conference following the joint meeting, Development Committee Chair Yashwant Sinha emphasized that "the world community is completely committed to the processes of poverty reduction and growth, to debt forgiveness, to enhanced flows of official development assistance, to peace and conflict resolution, and to the question of better market access for the products of the developing countries—especially the HIPCs—to all markets, especially the markets of the developed countries."

IMFC Chair Brown welcomed the language of the communiqué as "the strongest statement yet that what we can achieve together … is so much greater than what we can achieve on our own." He added: "By creating a virtuous circle of debt reduction, poverty reduction, and sustainable development, we can meet the development target for 2015 to which we have all subscribed." (For excerpts from the press conference, see page 146.)

Development Committee

The Development Committee broadly endorsed the work of the IMF and the World Bank in supporting middle-income countries. In its communiqué, it noted that "good policies, and the institutions to implement them, were at the core of successful development programs, and [it] welcomed that an increasing number of countries were adopting this approach."

At a press conference following the meeting, Chair Yashwant Sinha said that while the HIPCs should receive priority attention, programs in the middle-income countries were important because the largest number of poor people lived in those countries. IMF Deputy Managing Director Eduardo Aninat noted that there had been some progress and some improvement in dealing with the duration and extension of crises. Working with the World Bank, he said, the IMF had focused on improving its surveillance capacity and on strengthening the underlying financial institutions in its member countries.

The full texts of all communiqués, press conferences, the Managing Director's statement "The IMF in the Process of Change," the statements by ministers and others representing the IMF's member countries, and other materials can be found on the IMF's website: www.imf.org. ■

Köhler submits statement to IMFC on IMF in process of change

Following is a summary of the statement "The IMF in the Process of Change," submitted by IMF Managing Director Horst Köhler to the April 29 meeting of the IMF's International Monetary and Financial Committee (IMFC).

In his written statement to the IMFC, IMF Managing Director Horst Köhler discussed the critical challenges for international cooperation, in the face of the weakening of world economic activity, and his priorities for further reform of the IMF in the coming months. In particular, he underscored the need for proactive policies to strengthen prospects for global economic growth, especially in the poorest member countries, and the need for the IMF to work harder to put crisis prevention at the heart of its activities.

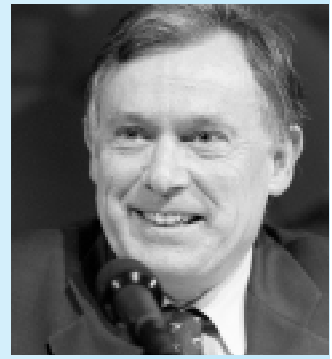
Global economy

Recalling the theme of the 2000 Annual Meetings, Köhler noted that the importance of international cooperation had become even clearer "in light of the interdependencies and spillovers revealed by the current slowdown in world economic activity." The deceleration of the U.S. economy had been deeper and faster than expected, and declines in world equity markets and the financial difficulties faced by Argentina and Turkey heightened further the risks in the global outlook. This called for proactive policies in the advanced economies, especially Europe and Japan, and forceful action to open markets and liberalize world trade.

Crisis prevention and management

Reforms implemented by the IMF following the Asian crisis, Köhler said, were helping to make the international financial system more resilient. It was nonetheless clear that "the IMF needed to work even harder to put crisis prevention at the heart of its activities." The IMF's top priority for the coming months should be further work on early warning systems, to combine quantitative indicators with judgment from the field and the markets and bring this to bear in the IMF's deliberations and policy advice. He noted that the new International Capital Markets Department and the ongoing dialogue with private sector representatives through the Capital Markets Consultative Group would help improve the IMF's expertise and judgment on capital market issues and strengthen crisis prevention and management. He also stressed the importance of making the IMF's Contingent Credit Lines operational, as a way to encourage preemptive policy reforms and help members avoid spillovers from crises in other countries.

Although a stronger focus on crisis prevention would help reduce the frequency and severity of crises, Köhler acknowledged that these could not be avoided altogether. The IMF would continue to play a central role in managing crises, acting on the principle that IMF financing should not relieve debtors or creditors of their responsibility for the risks they take. Köhler noted that this principle also underlay the IMF's framework for private sector involvement in crisis prevention and resolution. This framework relied as much as possible on working with private creditors toward voluntary solutions, while recognizing that other approaches might be necessary in some cases; the IMF would continue working to define the ground rules for such cases.



Köhler: The IMF's top priority should be further work on early warning systems.

Another IMF priority was to strengthen financial systems in member countries and, thereby, the international financial system as a whole. Köhler listed the three elements of the IMF's approach, which he described as an important contribution to crisis prevention: extending the joint IMF–World Bank Financial Sector Assessment Program to 24 more countries in each of the next two years, engaging in a review of offshore financial centers, and enhancing the IMF's contribution to international efforts to combat money laundering.

Conditionality and poverty reduction

While emphasizing the importance of conditionality for safeguarding the IMF's resources, Köhler stressed that IMF-supported programs would succeed only if measures were well suited to a country's administrative capacity and commanded the broad domestic political support needed for sustained implementation. Thus, he said, the IMF was reviewing its structural conditionality, with a view to focusing it on those measures that are critical to the macroeconomic objectives of country programs. The IMF has solicited input to this review from the public, through its website.

The IMF is working closely with the World Bank to assist their poorest members. It is clear, Köhler said, that an effective strategy to reduce poverty must start with poor countries' efforts to "improve governance, fight corruption, establish respect for the rule of law, end armed conflict, and provide a good climate for private investment." The IMF and the World Bank, through the Heavily Indebted Poor Countries Initiative, have brought debt relief to 22 African and Latin American countries and will extend it to other poor countries. However, Köhler stressed that debt relief was not a panacea. Over time, poor countries needed to develop more normal links to international financial markets, and even in the near term they could benefit far more from increased aid and enhanced trading opportunities.

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

IMFC communiqué

Ministers endorse forward-looking approach toward open trade, strengthening reform

Following is the edited text of the communiqué of the International Monetary and Financial Committee (IMFC) of the Board of Governors of the IMF in Washington.

The International Monetary and Financial Committee (IMFC) held its third meeting in Washington on April 29, under the Chairmanship of Gordon Brown, Chancellor of the Exchequer of the United Kingdom.

World economy

In the increasingly interconnected global economy, we will continue to promote international economic cooperation and work together, adopting a forward-looking approach to meeting our common objective of open trade for greater global prosperity, maintaining the momentum for reform in the international financial system, strengthening our economies through structural reform, maintaining sound macroeconomic conditions for strong noninflationary growth, and encouraging poverty reduction and growth in the poorest countries.

Horst Köhler (left) confers with Gordon Brown at the IMFC meeting.

The Committee agrees that short-term prospects for global growth have weakened significantly since its September 2000 meeting in Prague. The Committee considers it likely that the slowdown in global growth will be short-lived, though it notes that the downside risks have increased. Underlying inflationary pressures generally remain subdued.

Against this background, the Committee stresses the need for policymakers in the advanced economies to remain vigilant and forward looking:

• In the United States—which has provided important support for the growth of the world economy in recent years—there has been a marked deceleration of activity. The significant easing of monetary policy in recent months is timely and welcome, and monetary policy should remain directed at restoring growth potential while maintaining price stability. The Committee considers that timely fiscal policy measures would also provide support to economic growth.

• In view of the persistence of slow growth in Japan, the Committee welcomes the recent introduction of a new monetary policy framework and underscores the importance of the authorities' commitment to an expansionary policy stance until the risk of deflation is eliminated. Given the high level of public debt, the gradual fiscal consolidation currently under way remains appropriate. Prospects for a return to sustained growth depend most critically on determined action to address structural weaknesses, especially in the financial and corporate sectors.

• In this context, growth in the euro area remains relatively well sustained, although a slowing in activity is under way. The Committee agrees that policies should continue to support confidence and strengthen growth potential. Fiscal policy needs to continue to be geared toward fiscal consolidation in the medium term. Tax reforms should contribute to enhanced economic efficiency. The Committee underscores the importance of a further deepening and acceleration of structural reforms, especially in labor and product markets and in strengthening pension systems, for boosting longer-term growth potential.

The Committee notes that other countries are being adversely affected by both the slowdown in growth in the advanced economies and the deterioration of conditions in international financial markets. The Committee, however, notes that growth is expected to be relatively well maintained in India and China. The Committee welcomes the steps taken by many emerging market economies in recent years to reduce external and financial sector vulnerabilities, including by adopting sustainable exchange rate regimes and prudent debt and reserve management policies. In view of the present fragility of external financing conditions, the prospects for emerging market economies depend critically on maintaining investor confidence, which, the Committee agrees, will require pursuing prudent macroeconomic policies and pressing ahead with corporate, financial, and institutional reforms. The Committee welcomes the recent comprehensive set of measures being implemented by the Argentine government to improve the underlying fiscal position and provide a strong basis for the sustained recovery of the economy, in line with the objectives of the IMF-supported program that is in place. It considers that these measures are an important and decisive step to boost confidence. The Committee also welcomes the comprehensive strategy of bank restructuring, fiscal consolidation, and structural reform initiated by the Turkish authorities. The Committee considers that these policies, together with the provision of the needed external financing by the IMF and the Bank, provide the basis for the reestablishment of financial stability and sustained disinflation with growth, and merit the support of the international community and the private sector. The Committee looks forward to a rigorous implementation of all the necessary measures. The Committee welcomes the additional financing proposed by the Managing Director to support those policies and looks forward to the forthcoming Executive Board discussions of these topics.

The Committee expresses particular concern that the slowdown in global growth risks adversely affecting the IMF's poorest member countries. The Committee stresses that developing countries need to pursue sound and stable policies and to build strong institutions as part of a commitment to poverty reduction and growth, and to create a favorable environment for domestic and foreign investment and private sector activity. The Committee emphasizes that the advanced economies have a special responsibility to assist poor countries' own efforts as they work to achieve the international development goals. This includes adequate flows of official development assistance and carrying forward the HIPC Initiative to deliver sustainable debt levels, as well as more rapidly and decisively opening their markets to developing countries' exports. The Committee welcomes recent market-opening actions and urges all countries to remove remaining barriers to the exports of the poorest countries. The Committee looks forward to the joint meeting with the Development Committee later today. The Committee welcomes the cooperation of the IMF and the World Bank on the international development goals, addressing the importance of delivering on the commitments made at Dakar on education and the need for global action on health to address diseases such as the HIV/AIDS pandemic.

The Committee underscores more broadly the importance of open markets for strengthening the global economy and for enhancing the growth prospects of developing countries. It urges all countries—developed and developing—to find common ground for the launch of new multilateral trade negotiations this year. The Committee is unanimous in its view that recourse to protectionism would be the wrong response to the global economic slowdown and the attendant difficulties in particular sectors. The Committee calls upon all countries to resist protectionist pressures and to reduce or eliminate trade barriers and trade-distorting subsidies. Looking forward, it requests the IMF to pay attention to the effects of trade policy developments and to continue to encourage trade liberalization in the context of all its activities with its members, both developed and developing. The Committee welcomes and encourages greater cooperation between the IMF, the World Bank, and the World Trade Organization.

"The IMF in the Process of Change"

The Committee welcomes the work program outlined in the Managing Director's progress report. It welcomes the recent moves to refocus the IMF in order to maximize its effectiveness in reducing members' vulnerability to currency or balance of payments crises, and in supporting their policies toward promoting sustainable growth and poverty reduction. It considers that the IMF is appropriately focusing on

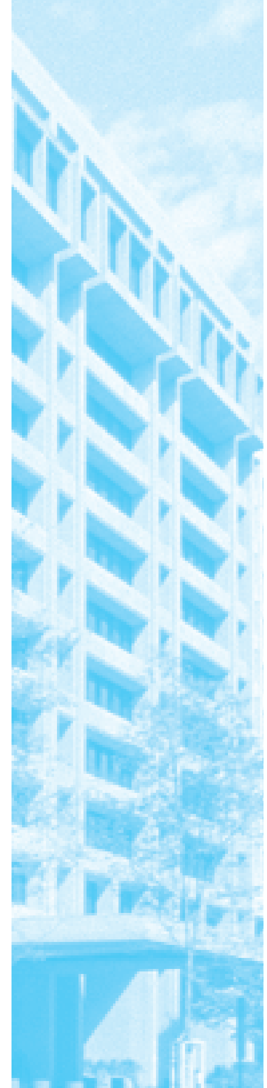
- promoting macroeconomic and financial stability as a precondition for sustained economic growth;
- promoting the stability and integrity of the international monetary and financial system as a global public good; and
- helping member countries develop sound financial sectors in order to protect against vulnerability, to mobilize financing for productive investment, and to take advantage of the opportunities of global financial markets.

The Committee endorses the further steps that are being taken to increase complementarity and strengthen cooperation with other organizations, especially the joint work with the World Bank in strengthening financial sectors, fighting poverty, and making progress toward the achievement of the international development goals. It stresses the need to maintain and deepen this collaboration and extend it into other areas. The Committee also welcomes the steps under way to align more closely the IMF's technical assistance with its key policy priorities and to better coordinate this assistance with that of the Bank and other providers.

The Committee strongly supports the redoubling of the IMF's efforts to put crisis prevention at the heart of its activities, and especially of its bilateral and multilateral surveillance (as described below). The Committee encourages countries to pursue strong policies and, to minimize contagion, reemphasizes the precautionary nature of the Contingent Credit Lines for those purposes. At the same time, it welcomes the steps being taken—including the recent reforms of the IMF's financing facilities—to strengthen the IMF's capacity to respond to financial crises in member countries and to minimize their adverse impact.

The Committee notes the recent experience in applying the agreed framework for private sector involvement in crisis prevention and management, which relies as much as possible on voluntary,

"In the increasingly interconnected global economy, we will continue to promote international economic cooperation and work together."
—IMFC communiqué



market-oriented approaches. The Committee welcomes the Executive Board discussion and the consultations with other international institutions, member governments, and the private sector on the possible use of collective action clauses, investor relations programs, corporate workouts, and techniques for bond restructuring. Looking forward, the Committee reaffirms the exceptional character of financing beyond normal access limits and repeats that reliance on the catalytic approach at high levels of access must presume substantial justification. Within the framework of private sector involvement, there may be cases requiring more concerted approaches, and the Committee asks the IMF to continue its work on articulating the circumstances in which such approaches would be applied and the specific role of the IMF. The implementation of this framework should be subject to a well-defined monitoring and assessment procedure. The Committee also looks forward to progress by the Annual Meetings on practical issues involved in applying the framework, including an improved basis for assessing debt sustainability, prospects for regaining market access, the risk of contagion, and the comparability of treatment between official and private creditors. The Committee stresses the importance in the future of taking decisions in a way that is consistent with the framework.

"Strong and effective crisis prevention is a top priority."
—IMFC communiqué

Strengthening the IMF's focus on financial markets and crisis prevention

The Committee stresses that strong and effective crisis prevention is a top priority. It welcomes the Managing Director's decision to establish the International Capital Markets Department as part of the effort to deepen the IMF's understanding of and judgment on international capital market issues, to improve its early warning capabilities, and to strengthen crisis prevention. This will complement the earlier establishment of the Capital Markets Consultative Group as a channel for regular, informal, and constructive dialogue with private sector representatives. The Committee calls on the IMF to make progress with its work on early warning indicators of potential crises in individual countries and in international financial markets, taking full account of the need to avoid instability. The IMF should stand ready to help countries that wish to proceed with an orderly liberalization of their capital accounts.

The Committee is pleased to observe continued progress since its last meeting in implementing previous IMF initiatives on crisis prevention and financial sector surveillance. In particular, it notes

- the agreement by the Executive Board on a list of international standards and codes relevant for the Article IV surveillance process and on the modalities by which staff assessments of members' implementation of these standards and codes will be brought into surveillance and made public, while paying due regard to the voluntary nature of these standards and codes. It agrees that ROSCs [Reports on the Observance of Standards and Codes] should be established as the principal tool for assessing the implementation of standards and codes. It also takes note of the revised version of the Code of Good Practices on Fiscal Transparency and the accompanying Manual on Fiscal Transparency;
- the recent steps to adapt the IMF's analytical framework to better assess external vulnerability, as well as its development of guidelines for reserves management and, with the World Bank, of guidelines for public debt management;
- the IMF's work with countries to strengthen the data underpinning external vulnerability analyses, in particular the wider use of the IMF's Special Data Dissemination Standard and General Data Dissemination System, and the expanded coverage of the Coordinated Portfolio Investment Survey to include more instruments and additional jurisdictions, including offshore financial centers;
- the implementation of initiatives on the IMF's transparency policy that has progressed significantly over the last year, including the decision to allow voluntary publication of all country staff reports and other country documents;
- the progress in strengthening financial sector surveillance both at the national and international levels. The Committee particularly welcomes the progress made in assessing member countries' financial sectors through the joint Bank-IMF FSAP [Financial Sector Assessment Program], which provides a coherent and comprehensive framework for identifying financial system vulnerabilities, assessing development needs and priorities, and helping to develop appropriate policy responses. The Committee agrees that the IMF's FSSAs [Financial System Stability Assessments], which are derived from the discussion of FSAP findings in the context of the Article IV process, are the preferred instrument for strengthened monitoring of financial systems as part of IMF surveillance. It welcomes the agreement by the Executive Board to permit publication by national authorities of the detailed assessment of observance of standards and codes that are included in FSAP reports and to enable publication of FSSAs on a voluntary basis. The Committee welcomes the extension of the IMF's financial sector work to include voluntary assessments of offshore financial centers.

Combating financial abuse and money laundering

The Committee underscores that money laundering is an issue of global concern requiring strengthened policies and concerted action on the part of governments and a range of institutions. Effective anti-money-laundering measures at the national level are important for all IMF members, especially those with large financial markets. In this regard, the Committee generally agrees with the recognition of the FATF [Financial Action Task Force] 40 Recommendations as the appropriate international standard for combating money laundering, and agrees that work should go forward to determine how the recommendations can be adapted and made operational in the IMF's work. It endorses the proposed closer collaboration by the IMF and the World Bank with the FATF and other anti-money-laundering groups in reviewing standards and procedures in this area. In this regard, the Committee notes that, to be consistent with the ROSC process, assessments should be undertaken on a uniform, cooperative, and voluntary basis. Action by the IMF on combating money laundering should aim to promote a more effective regulatory and supervisory environment and thus help prevent financial crime and money laundering. The IMF, in collaboration with the World Bank, should, if requested, also provide more technical assistance in this area to member countries to strengthen their economic, financial, and legal systems.

Streamlining conditionality and strengthening ownership

The Committee welcomes the ongoing review of IMF conditionality and underscores that conditionality remains indispensable, together with financing, as an integrated response by the IMF to support its members' policy programs. While the expansion of conditionality in the structural area over the past several years reflects in part the critical importance of structural reforms for macroeconomic stability and sustained growth, its increasing scope and detailed nature warrant a review of recent practice. The Committee endorses the principles that IMF conditionality should focus on those measures, including structural, that are critical to a program's macroeconomic objectives. While this principle needs to be interpreted carefully on a case-by-case basis, the Committee notes that it shifts the presumption of coverage from one of comprehensiveness to one of parsimony. Enhanced collaboration and clearer division of labor between the IMF and other international agencies, in particular the World Bank, is an important element of streamlining. The Committee reaffirms that the overarching objective of streamlining is to make conditionality more efficient, effective, and focused without weakening it, and welcomes the progress being made in this respect. The Committee considers it particularly important that IMF-supported programs take adequate account of national decision-making processes and the administrative capacity to implement reforms, and be founded on strong country ownership. The objective should be to provide maximum scope for countries to make their own policy choices, while ensuring that the IMF's financing supports needed policy adjustments and while safeguarding the IMF's resources. The Committee notes that greater efforts to help countries strengthen institutional capacity for sustained implementation of structural reforms are an essential complement to this approach. The Committee urges the Executive Board to continue its review of IMF conditionality in the light of experience and feedback from the broad public consultation now under way on these issues, including the important question of how to deal with structural issues that are relevant but not critical to the success of macroeconomic objectives. It looks forward to a report on further progress at its next meeting, with a view to drawing firm conclusions on the streamlining of conditionality.

Japan's new finance minister, Masajuro Shiokawa.

Governance

The Committee agrees that the IMF should address governance issues that have a significant macroeconomic impact, both through initiatives that apply across the membership and through specific measures to address particular instances of poor governance and corruption. The Committee requests the Executive Board to keep under close review the use of specific remedial measures, which should be applied with careful judgment and flexibility. The Board should also address the two-sided nature of corruption by following up on the implementation of OECD [Organization for Economic Cooperation and Development]-led initiatives to combat bribery of foreign public officials, and similar initiatives, in the context of surveillance.

Other issues

Quotas should reflect developments in the international economy. The Committee looks forward to further work on this issue.

The Committee welcomes ongoing measures to improve transparency, governance, and accountability in the IMF. The Committee particularly welcomes the appointment by the Executive Board of Montek Singh Ahluwalia as Director of the IMF's independent Evaluation Office (EVO). Noting that the EVO will become operational in August 2001, the Committee reiterates its expectation that the work of the EVO will help the IMF improve its future operations and enhance its accountability. It looks forward to receiving regular reports on the EVO's work and hopes that a first report, on the forward work plan, will be available in time for the Committee's next meeting.

The Committee notes the joint draft report of the IMF's Working Group to Review the Process of Selection of the Managing Director and the World Bank Working Group to Review the Process of Selection of the President.

The Committee takes this opportunity to thank Michael Mussa for his outstanding contribution to the institution. It notes that under his intellectual stewardship, the *World Economic Outlook* has become a flagship product of the IMF.

Next meeting of the Committee

The next meeting of the IMFC will be held in Washington on September 30, 2001.

IMFC press conference

Brown, Köhler stress meeting's recognition of shared interests of global community

Gordon Brown: "We urged all countries, developed and developing, to find common ground for the launch of new multilateral trade negotiations this year."

Horst Köhler: "The meeting of minds on policies should bolster confidence that global growth will be strengthened and the risks contained."

Following are edited excerpts of the press conference held after the meeting of the International Monetary and Financial Committee (IMFC) on April 29 in Washington. Participating were Gordon Brown, Chancellor of the U.K. Exchequer and Chair of the IMFC, and Horst Köhler, Managing Director of the IMF.

BROWN: Horst Köhler and I are delighted to be able to report on the progress that we have made in the IMFC. The approach to the slowing of the world economy is that we would be both forward looking and outward looking. There was a general recognition of our shared interests as a global community. We recognized that we should not retreat from cooperation but indeed should strengthen it, and we found a shared approach in the decisions and the recommendations we made. That we should, in facing economic events, be vigilant, but we should be forward looking in creating the conditions for growth, in maintaining the momentum for economic reform in our own national economies, and in continuing the pace of reform in the international financial architecture. And I believe that people will be interested also in the section on trade where we call for the resumption of the multilateral trade talks as important to the development of the world economy.

We also looked at the international development targets and the HIPC [Heavily Indebted Poor Countries] Initiative, and the developing countries and their position, and we agreed about the importance of moving forward with both education and health initiatives in these areas.

On the world economy, we said that while we recognized that the short-term prospects for global growth have weakened significantly since September 2000, we consider it likely that the slowdown will be short-lived, though we noted that the downside risks had increased. Underlying inflationary pressures in general remained subdued. We went on to say: "We will continue to promote international economic cooperation and work together, adopting a forward-looking approach to meeting our common objectives of open trade for greater global prosperity, maintaining the momentum for reform in the international financial system, strengthening our economies through structural reform, maintaining sound macroeconomic conditions for strong noninflationary growth, and encouraging poverty reduction and growth in the poorest countries." And that is the basis of the shared approach that was adopted by all countries today.

On trade, we urged all countries, developed and developing, to find common ground for the launch of new multilateral trade negotiations this year. The committee is unanimous in its view that recourse to protectionism would be the wrong response to the global economic slowdown and the attendant difficulties in particular sectors. We said that we looked forward to the joint meeting of the Development Committee and the IMFC. We welcome the cooperation of the IMF and the Bank on the international development goals, addressing the importance of delivering on the commitments made at Dakar on education, and the need for global action on health to addresses diseases such as the HIV/AIDS epidemic.

We also made a number of decisions, ratifying the very positive reforms that Horst Köhler is proposing for improving the crisis prevention mechanisms of the IMF in the world community and improving measures for crisis resolution. We paid particular attention this morning to financial sector reforms.

This was a constructive meeting. There was a shared approach, not simply on the need to be vigilant but also on the conditions that are necessary for growth. This was a positive meeting, which makes me cautiously optimistic about the prospects for the world economy given the reforms and the changes that we are all agreed to make.

Köhler: I fully agree with the Chancellor that this has been a most productive meeting, thanks in no small part to his chairmanship. I would just add that I am very pleased with the outcome. The meeting of minds on policies in the face of the current slowdown should bolster confidence that global growth will be strengthened and the risks contained. I would like to add that IMF Economic Counsellor Michael Mussa, with an excellent presentation, made a good contribution to this strengthening of the consensus about what to do. It was gratifying that the committee strongly welcomed both our recent moves to refocus the IMF and the work program outlined in my progress report "The IMF in the Process of Change." This will hasten our progress toward an IMF that is more effective, especially at crisis prevention and promoting financial sector stability. I hope that I, speaking under the authority of the Chair of the IMFC, can say the IMF is strengthened by these discussions.

Our joint meeting later today with the Development Committee will focus on our work in poor countries, but I would emphasize that the interests and concerns of these countries and other developing and emerging market countries also featured prominently in the discussions in the IMFC meeting.

I am also pleased that during these meetings we have reached agreement in principle to support Turkey and Argentina. Both countries have substantially strengthened their policies, and they deserve support. The remaining details of the programs will be sorted out in a few days. I also think that the handling of these two cases strengthens the IMF and has the support of its shareholders.

I am also particularly grateful that the good cooperation with the World Bank and Jim Wolfensohn was appreciated and endorsed by the Committee. In fact, this meeting for me has again shown how important the IMFC is. It is a forum of truly global economic cooperation, focusing on how the IMF and its members can work to ensure that globalization works for the benefit of all. As you know, that is my vision.

Question: Mr. Köhler, you say that you want to move toward crisis prevention. What could or would you have done differently in Turkey and Argentina?

Köhler: We are now handling these cases. I am sure that, for instance—and I am reminded of this in our discussions—we would have been more ambitious to include systemically important countries in our Financial Sector Assessment Programs. If Turkey had been included in this program, maybe the crisis there would not have happened.

Question: Have you discussed the role of the IMF in preventing international money laundering? If yes, could you comment on the points of agreement and disagreement among the IMF's members?

Brown: The Committee did discuss this issue. Let me just read to you what we decided: "The Committee underscores that money laundering is an issue of global concern, requiring strengthened policies and concerted action on the part of government and a range of institutions. Effective anti-money-laundering measures at the national level are important for all IMF members, especially those with large financial markets. In this regard, the Committee generally agrees with the recognition of the FATF [Financial Action Task Force] 40 Recommendations as the appropriate international standard for combating money laundering, and agrees that work should go forward to determine how the recommendations can be adapted and made operational in the IMF's work. It endorses the proposed closer collaboration of the IMF and the World Bank with the FATF and other anti-money-laundering groups in reviewing standards and codes in this area. In this regard, the Committee notes that, to be consistent with the Reports on Observance of Standards and Codes process, assessments should be undertaken on a uniform, cooperative, and voluntary basis. Action by the IMF to combat money laundering should aim to promote a more effective regulatory and supervisory environment and thus help prevent financial crime and money laundering. The IMF, in collaboration with the World Bank, should, if requested, also provide more technical assistance in this area to member countries to strengthen their economic, financial, and legal systems." So we are both taking seriously this issue and acting together to improve procedures.

IMF management welcomes Argentine fiscal measures

IMF News Brief No. 01/41, issued on April 28, announced that the Managing Director of the IMF, Horst Köhler, met with the Minister of the Economy of Argentina, Domingo Cavallo, on April 28. The Minister outlined to the Managing Director the comprehensive set of measures being implemented to contain the fiscal deficit for 2001 within the ceiling of $6.5 billion, established in accordance with the Fiscal Responsibility Law. The Managing Director welcomed these measures as an important and decisive step to boost confidence, consistent with the objectives of the IMF-supported program that is in place. This, together with other initiatives announced by the Argentine government and the unwavering commitment to the Convertibility Law, should provide a strong basis for a sustained recovery of the economy.

It is expected that discussions with the authorities on the remaining details of the memorandum on economic policies will be concluded shortly.

Köhler (left) met with Argentine Minister of the Economy Domingo Cavallo on April 28.

"Instead of retreating from global cooperation, we are strengthening it, and it is by strengthening global cooperation that we are better placed to deal with difficulties as they arise."
—Gordon Brown

Köhler: I think that is the substance, and the IMF Executive Board will take up this process, and we are certainly ambitious to have progress.

Question: Mr. Brown, you referred to the need to be forward looking in the working of the IMF. What should the international financial institutions and the European countries do if the new programs in Turkey and Argentina are not enough to restore confidence and stability? Mr. Köhler, if in the case of Argentina a big part of the program is not implemented in the future, can the IMF support in some way this action? What is the IMF's view of this situation?

Brown: We said the prospects of emerging market countries depend critically on investor confidence, which the Committee agrees will require pursuing prudent macroeconomic policies and pressing ahead with corporate, financial, and institutional reform. That was our general view about emerging market economies.

As far as Argentina is concerned, the Committee welcomed the recent comprehensive set of measures being implemented by the Argentine government to improve the underlying fiscal position and provide a strong basis for the sustained recovery of the economy in line with the objectives of the IMF-supported program that is in place. It considers that these measures are an important and decisive step to boost their confidence.

Köhler: Minister Cavallo, very impressively, particularly outlined how Argentina came to a culture of stability, of respect for property rights, and to growth and private sector investment. First, this basic approach is the best guarantee that his policy will succeed and also deserves the support of the IMF. I have talked to him. He confirmed to me that Argentina will come back on track with regard to the fiscal arrangement with the IMF. That is good. Second, it is clear that the basis of all this is the convertibility law. This is right. And third, the IMF is prepared to look at how we might be able to rephase, on the basis of the existing program, our disbursement to help Argentina.

Question: Mr. Brown, you said you were cautiously optimistic about the global economy. Where do you see the risks and how might that be different from what you would have seen a year ago?

Brown: There has obviously been a slowdown in activity. It is a slowdown in activity in the United States, but it has wider repercussions. It was reported to us about what was the likely position in Europe as a whole. On Japan there is a general view about the banking and structural reform that is necessary there. But I am cautiously optimistic because, first, many of the foundations that were not in place on previous occasions are in place, and inflation is relatively low. The fiscal positions of the major economies are relatively sound. I am also optimistic because a common view is developing—a shared approach—as to the need to maintain the momentum of reform, to continue with the pace of changing the international financial architecture, to make us better prepared to deal with difficulties as they arise. There was a determination today to push forward with the trade talks as important for avoiding any resort to protectionism—indeed, showing we are outward looking in the face of these difficulties and forward looking, as well as vigilant in relation to macroeconomic policy. And it is on that basis that we are—with a shared approach—ready to move forward in the key areas where people are looking to us. That, I believe, allows us to be cautiously optimistic.

And the answer to those people who have criticized globalization and global institutions is: Instead of retreating from global cooperation, we are strengthening it, and it is by strengthening global cooperation that we are better placed to deal with difficulties as they arise.

Köhler: I was particularly pleased that Chancellor Brown pointed to the fact that in the global economy of today, things are interconnected. And the discussion about these interdependencies will certainly raise awareness about what is needed to bring the global economy back to growth with new momentum.

Question: Some of us sense a contrasting tone with the cheerfulness of the Group of Seven Ministers.

IMF, Brazil establish training center

Brazilian Finance Minister Pedro Sampaio Malan (left) speaks with IMF Deputy Managing Director Eduardo Aninat on April 27, after the IMF and Brazil signed a memorandum of understanding establishing a Joint Regional Training Center for Latin America. The new center will be located in Brasilia and will offer courses on, among other topics, macroeconomic adjustment policies, financial programming, public finance, and trade policies.

Mr. Brown, you talk about a cautious optimism. U.S. Treasury Secretary Paul O'Neill was an optimist. Then there is the IMF's more somber assessment. Mr. Mussa's evaluation just reinforced my impression that there is a contrast between what the Group of Seven ministers are saying and the IMF's assessment. What should a person believe?

BROWN: Should you believe what I said yesterday or what I said today? I am saying the same things on both days. If you look at the Group of Seven communiqué and the first section of the IMFC communiqué, you will see the commonality and the shared approaches that are taken. When we say we will continue to promote international cooperation, we will work together. We will adopt a forward-looking approach; we have common objectives for greater prosperity. These involve reform, action on trade, action on the macroeconomic conditions, and it is our view that if we can take these measures, the slowdown will be short-lived. We remain vigilant and forward looking. This is very much in the spirit of all the countries represented here today, including the countries of the Group of Seven. What is very interesting about what happened today is that the approach is shared right across the world about how we must be both vigilant and forward looking. I see no difference between what we said yesterday as the Group of Seven—indeed, what Mr. O'Neill said yesterday about the long-term optimism that he has about the possibilities for growth in the world economy—and what I am saying today. The meetings have been constructive, and they show that we can act together to deal with common problems.

KÖHLER: I am also guardedly optimistic, and I am saying this based particularly on the sober analysis of Michael Mussa, because this triggered a very frank discussion among the ministers. It made clear this connection between the regions. It made clear that European monetary policy will be even more vigilant, and it also made clear that Japan has a particular responsibility to do its job to bring the country back to growth.

QUESTION: Mr. Köhler, how do you answer concerns that the Turkey program can bring back the moral hazard risk in the markets? Is it just a little bit of a bailout?

KÖHLER: This program received the unanimous support of ministers. It is a good policy, and there is a good chance that, based on a market economy, based on openness through the international economy, the Turkish government will emerge from this mess. We know that every case has its particular problems; I think this program, with the $10 billion of financing, is the right answer, the appropriate answer in the specific situation of Turkey.

QUESTION: Mr. Köhler, why do you think that Argentina would need to rephase the disbursements of its IMF program? Frankly, for the last three or four years, the IMF has been asking Argentina to do its fiscal job, but it hasn't worked so far. Why do you think it would work now?

KÖHLER: I think it will work because the policy is right. It is a policy based on growth orientation, investment, and competitiveness. That is what counts, and what markets are going to reward. We are prepared to support this. If there is a need for rephasing our disbursements, we are prepared to do that. We are not bureaucratic. We are working with Minister Cavallo in a very close and productive relationship.

QUESTION: Senior U.S. Treasury officials indicate that while they support the IMF's efforts for Turkey, they indicate that responsibility for success is very much on the government and that this could be the last such package it would support. Do you believe the responsibility lies with the Turkish government, and if this reform package fails, is the credit line pretty much closed after this?

KÖHLER: Surely, the responsibility for this lies first and foremost with the government of Turkey. It is their program. It is not the prescription of the IMF. We have heard from the Turkish Economy Minister, Kemal Dervis, that this program is very highly regarded in the polls—I think with 65 percent or something like that. It is their responsibility, but we are making our contribution to it, that it can really succeed.

BROWN: The statement says, "the Committee welcomes the comprehensive strategy of bank restructuring, fiscal consolidation, and structural reform initiated by the Turkish authorities." And then it goes on to say it merits the support of the international community and the private sector. And that is the agreed statement of the IMFC. ■

Selected IMF rates

Week beginning	SDR interest rate	Rate of remuneration	Rate of charge
April 16	3.84	3.84	4.45
April 23	3.72	3.72	4.31
April 30	3.78	3.78	4.85

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?2001).

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

Data: IMF Treasurer's Department

IMFC–Development Committee communiqué

Participants see progress in fighting poverty, strengthening growth in poorest countries

Following are edited excerpts of the communiqué issued after the joint session of the International Monetary and Financial Committee (IMFC) and the Development Committee.

The members of the Development Committee and the IMFC met jointly on April 29 to review ongoing efforts by the World Bank and the IMF to strengthen growth and fight poverty. We renew our commitment to address these issues and to assist countries in their efforts to achieve the international development goals. This special meeting symbolizes our full support for the strengthened cooperation between the Bank and the IMF, which is reflected as well by many other items on the separate agendas of the IMFC and the Development Committee. In this meeting, we focused our attention on progress in strengthening this partnership in fighting poverty and strengthening growth in the world's poorest countries.

Belgian Finance Minister Didier Reynders speaks with U.S. Secretary of the Treasury Paul O'Neill.

Many of the issues we discussed apply with special force to the problems of Africa. Following the joint visit to the region by the heads of our two institutions last February, they reported on the strong commitment among African leaders to make changes that will allow the continent to attack the roots of poverty and to improve the lives of their people on a lasting basis. The African leaders stressed the importance of tackling major problems that are addressed in our Committees' agendas: conflict and weak governance; building a strong human resource base, including education and the attack on HIV/AIDS and other communicable diseases; and the need to position Africa to benefit from globalization. We recognize that strong action by African leaders to face their own responsibilities needs to be complemented by strong support from the international community to achieve the international development goals, and we are prepared to work to provide that support.

A great deal of progress has been made since the Prague Annual Meetings to implement the PRSP [poverty reduction strategy paper] approach and the enhanced HIPC [Heavily Indebted Poor Countries] Initiative. We are encouraged by the seriousness of purpose and ownership with which countries have engaged in the process and by the willingness of development partners to support the approach. While we are also encouraged by the prospect that many countries will complete their first full PRSP in 2001, we urge the Bank and the IMF, other multilateral institutions, and bilateral donors to help these countries fully develop, implement, and monitor their poverty reduction strategies. We appreciate that the process will evolve in light of experience and that success can only be measured in terms of poverty reduction achieved over time.

We welcome the substantial progress made in implementing the enhanced HIPC Initiative, with 22 countries having reached their decision points. This is expected to result in debt-service relief (including original and enhanced HIPC assistance) amounting to $34 billion. Taken together with traditional debt-relief mechanisms and additional bilateral debt forgiveness, a total of $53 billion will be provided to these countries. The combined debt relief is expected to reduce the external indebtedness of these countries by almost two-thirds (in net present value terms), bringing it to levels below the average for all developing countries. These countries have started to receive cash-flow debt relief, helping them to increase expenditures for poverty reduction. We encourage these HIPCs to continue their efforts to reach their completion points, and for those countries that have not yet qualified for assistance, to undertake the policies required to reach their decision points and begin to benefit from HIPC relief. We emphasized the importance for countries to demonstrate strong commitment to reform programs and reaffirmed the possibility, on a case-by-case basis, for flexibility on track record requirements where such conditions are in place. While recognizing the special needs of particular developing and low-income transition country creditors, we also urge that all donors and creditors participate in HIPC relief and meet their commitments of financial support.

Putting effective public expenditure management systems in place is a major objective to ensure that budgetary savings from HIPC relief, as well as from domestic resources and external assistance, are used effectively for poverty reduction purposes. We support the ongoing efforts by the Bank, the IMF, and donors to help countries strengthen these systems and see PRGF [Poverty Reduction and Growth Facility] reviews and PRSP progress reports as opportunities to report on country-specific progress. We urge countries preparing PRSPs to increase their efforts to improve expenditure management and monitoring; we encourage donors and creditors to support these efforts and to increasingly harmonize their delivery of aid in ways that strengthen countries' planning and budgetary systems.

We are encouraged that the World Bank is developing improved methods to help countries assess the social impact of policies, as well as its own policy recommendations, and that the IMF will contribute to this exercise in its areas of expertise and draw on and integrate the social impact analyses of others into its macroeconomic policy advice. We urge the Bank and the IMF to implement these steps at the country level as soon as possible. We welcome ongoing efforts by the Bank and IMF to streamline, focus, and prioritize conditionality on the basis of country-owned strategies to promote poverty reduction and growth. We also welcome the work under way to distinguish the relative roles of the IMF's PRGF and the Bank's Poverty Reduction Support Credit.

We reiterate our commitment to the enhanced HIPC Initiative as a means for achieving a lasting exit from unsustainable debt for eligible countries. The enhanced HIPC framework recognized the ongoing vulnerabilities of HIPCs and thus set the amount of debt relief at the decision point at a significantly deeper level than under the original framework. This is further supported by a number of bilateral creditors having agreed to 100 percent official development assistance debt reduction. We stressed that debt management needs to be strengthened. We agreed that at the completion point there should be a thorough analysis and discussion of the prospects for long-term debt sustainability. More broadly, we agreed on the importance of regular monitoring by HIPCs of their debt situation, with the support of the Bank and the IMF, including beyond the completion point. In exceptional circumstances, when exogenous factors cause fundamental changes in a country's circumstances, we reaffirm that within the HIPC framework the option exists, at the completion point, to consider additional debt relief.

Debt sustainability can be achieved and maintained only if the underlying causes of the debt problem are addressed. As with the broader fight against poverty, this requires a two-pillar strategy. First, poor countries must take charge of their own future and create opportunities for equitable and sustainable growth and poverty reduction by improving their performance with respect to macroeconomic management (including prudent borrowing), outward-oriented reforms supportive of private sector development, governance, and social policies (especially education and health). Second, the international community needs to provide strong support, not only through existing commitments for debt relief but also through increased aid and expanded opportunities for trade. We reiterated that HIPC debt relief should be additional to official development assistance, which should be provided on appropriately concessional or grant terms.

We strongly reaffirm the importance of greater access for developing countries to world markets, and particularly call upon countries to open their markets further to the exports of the poorest countries. In this context, we welcome the recent initiatives taken by a number of countries. Furthermore, the industrial countries have a major role to play by following policies that ensure sustainable, noninflationary growth for the world economy. Such concerted actions by both rich and poor countries are needed to achieve the international development goals.

Conflict remains a major obstacle to improving the lives of millions, especially in Africa. Helping countries resolve conflicts and reestablish the basis for economic and social progress is a critical priority for the international community. Large protracted arrears pose special challenges for several conflict-affected countries. As many of these countries are poor and heavily indebted, we welcome the work done by the Bank and the IMF to further enhance their capacity to assist them, including through debt relief. We welcome the IMF's efforts to put its emergency postconflict assistance on concessional terms. We agree on the importance of maintaining a strong focus on performance, including transparency in military spending to ensure that debt relief is used to reduce poverty and is not diverted to military spending. We agree that the enhanced HIPC Initiative framework has sufficient flexibility to accommodate the special circumstances of postconflict HIPCs, including with regard to the length of the track record if significant progress has been made toward macroeconomic stability, governance, capacity building, and monitoring. More broadly, postconflict countries in the process of recovery will also require substantial technical and capacity-building assistance. We agree there is scope for such increased Bank and IMF assistance to support rebuilding in these countries, and we call on both institutions to work in close collaboration with the United Nations system in these efforts so as to ensure full use of the specialized skills that these agencies possess. ■

"This special meeting symbolizes our full support for the strengthened cooperation between the Bank and the IMF."

IMFC–Development Committee communiqué

IMFC–Development Committee press conference

Joint meeting reaffirms commitment to poverty reduction, especially in Africa

Following are edited excerpts of a press conference held after the joint meeting of the International Monetary and Financial Committee (IMFC) and the Development Committee on April 29 in Washington.

SINHA: While we discussed the issue of strengthening growth and fighting poverty in the developing countries, the emphasis in this meeting was clearly on the HIPCs [Heavily Indebted Poor Countries] and largely, therefore, on Africa. We took note of the joint visit to Africa of the President of the World Bank and the Managing Director of the IMF. They held discussions with African leaders and at the end of it they addressed communications to Chancellor Brown and to me in our respective capacities. That was a very important input for the discussions this afternoon.

Participating in the IMFC-Development Committee press conference were (right to left) James Wolfensohn, President of the World Bank; Yashwant Sinha, Chair of the Development Committee; Gordon Brown, Chair of the IMFC; and Stanley Fischer, First Deputy Managing Director of the IMF.

On all of the issues that we had before us, we have received some very valuable insight and advice with regard to our future direction. I think the world community is completely committed to the processes of poverty reduction and growth, to debt forgiveness, to enhanced flows of official development assistance, to peace and conflict resolution, and to the question of better market access for the products of the developing countries, especially the HIPCs, to all markets, especially the markets of the developed countries.

The joint meeting has been extremely useful. Once again, the world community has come together to reconfirm, reaffirm, reiterate its commitment to poverty reduction in the developing countries and especially in Africa.

BROWN: I think you'll find the communiqué is the strongest statement yet that what we can achieve together—developed countries and developing countries, IMF and World Bank—is so much greater than what we can achieve on our own, and to achieve it not simply for debt relief as we move forward with that program. By creating a virtuous circle of debt reduction, poverty reduction, and sustainable development, we can meet the 2015 international development targets to which we have all subscribed—World Bank, IMF, and individual countries.

You will see in the communiqué also a recognition of the importance of the resumption of the multilateral trade talks so that we can open up markets to developing countries in a way that has not been done before. Almost all the speakers around the table emphasized that point, the importance of the development aid budgets, the importance we attach to the poverty reduction strategy papers, and the praise we give to IMF and World Bank cooperation to make these an essential instrument of poverty reduction and development.

We looked at the issue of debt, and we are of the view that the sustainable exit from debt burdens should not be undermined by changes in the terms of trade or by our inability to bring together a postconflict program or indeed by the financing available to the institutions themselves. We resolved that we must look carefully at these issues and ensure that we can build on the 22 countries that have achieved debt relief, make sure that that position for them is sustainable. Equally, we need to bring in additional countries, and particularly, of course, we are concerned about the 11 postconflict countries that so far cannot benefit from debt relief, as well as those countries still facing conflicts.

There was one other area where we are in agreement as well. To meet the 2015 targets, there will have to be a special emphasis on education and on health. The IMFC communiqué this afternoon draws attention to the Dakar commitments on education. You can see in the statements made by a number of countries the interest that is now growing in a health initiative that can tackle the problems not simply of HIV/AIDS but also the problems of tuberculosis and malaria, which are responsible each year for more than four million deaths, most of them unnecessary and avoidable deaths, around the world. I believe that we will see in the next few weeks and months a new initiative on health that will bring together the international organizations; individual countries, including Group of Seven countries; and perhaps also the private sector. There was a recognition today that just as prosperity is indivisible, the reduction of poverty is a duty for us all.

QUESTION: Can you give us some idea of the health fund, exactly how much it is going to be, and how it is going to be run? Who is going to run it? Will it be run by the World Bank or some other multilateral organization?

BROWN: I'll ask Jim Wolfensohn to say something about this, because he has already written about it and its importance. But there has been a proposal from the Italian government backed by the United Kingdom at the Group of Seven for a health fund. There's been a suggestion that it would concentrate on drugs, commodities, and vaccines for tuberculosis, malaria, and AIDS. There is growing support for that from a number of other countries as well as the work being done by the international organizations. I believe it is possible over time also to involve the pharmaceutical companies.

Some governments, like the U.K. government, are also considering a research and development tax credit that would encourage research into diseases, in particular diseases that carry off so many people in the poorest countries. When we know that only 10 percent of pharmaceutical research covers diseases that affect 90 percent of the people, we know that there is an urgency in moving forward with the research program into diseases and the development of vaccines and drugs.

Wolfensohn: We don't yet have any final numbers or, indeed, any assurance of the form of this, but it will include the World Health Organization and the United Nations. The World Bank has said it's ready to administer the fund. It would work with the other organizations, but it is as yet premature to say how much or where until the donors decide. Anything that's done in the fund would complement what the Bank is doing on HIV/AIDS. My guess is we'll be north of $1 billion this year just from the Bank alone, but as to the scope of the fund, it's yet to be determined.

Brown: The U.K. Secretary of State for International Development, Clare Short, and I are hoping to attend a meeting in New York on Tuesday to discuss some of the elements of the fund with interested parties. This is a window of opportunity that we will miss at our peril. It is important that we make progress as soon as possible.

Question: The IMF and the World Bank have the responsibility to ensure a crisis-free global economy. Did you detect that Argentina, Turkey, and the United States were going to have problems? Also, how can you say that Latin America is not going to have big problems with the global slowdown if Mexico and Brazil are the first trade partners of the United States and Argentina?

Fischer: There is a global slowdown taking place, but the international community is helping the countries most affected, which are Turkey and Argentina. We have made significant progress. We're very close to signing an agreement with Turkey and one with Argentina, possibly in a day or two. The IMFC expressed unanimous and very strong support for the actions the IMF proposes to take in both of these cases. The Mexican economy is slowing down, but it is speaking to the IMF about the possibilities of Contingent Credit Lines in the future, and it has strengthened enormously in the seven years since the crisis. It has been very vibrant. What the IMFC emphasized is that there is a growth slowdown, but there are good prospects that it will be turning around by the end of this year. Most important, we stand ready to help countries, whether they be in Latin America or Asia or Africa, if they are affected by this slowdown.

Question: What concrete decision was taken on conditionality in IMF programs? Are we going to see fewer conditions? Is conditionality moving away from the macroeconomic toward governance conditions? And what has happened on HIPC?

Fischer: On the IMF and conditionality, the Managing Director has been emphasizing very strongly the desire to streamline conditionality. That process has already started with guidelines that went into place last September. It's visible in the number of conditions and the focus of conditions in our programs. If you check on the web (www.imf.org), you'll find what has been done since then. This is part of an ongoing discussion to focus conditionality on macroeconomics and financial sector matters, and that's happening. There was unanimous support for that in the IMFC today.

The process is not over. We need to look at what problems may arise as we continue to do this, and then decide on formalizing precisely how we want to move. But that there will be fewer conditions, more streamlined conditions designed to strengthen conditionality and make it more effective, there is no doubt.

There was also a lot of discussion of governance. Those are very complicated issues. But the notion that macroeconomic conditionality would be replaced by governance conditionality is wrong. There is no intention of doing that. The IMF will focus on macroeconomic conditionality.

Brown: On HIPC, we were asked at the IMFC to consider the debt sustainability of the 22 countries and others coming through the debt-relief process. We were asked to look at the question of postconflict countries and the position of countries still in conflict and their debt relief. We were asked to look at instances where circumstances change for countries generally. I believe that the IMFC and the joint meeting have shown that we will be alert to the problems that arise in the debt reduction process.

First of all, on sustainability, we say we will agree on the importance of regular monitoring of the debt situation. In exceptional circumstances, when external factors cause fundamental changes in a country's circumstances, we reaffirm that within the HIPC framework the option exists at the completion point to consider additional debt relief.

On conflict countries, there were special measures that we are prepared to look at to help the 10 or 11 countries trying to escape from conflict that would need to achieve greater help more quickly. And equally, we're looking at the causes of the debt problem and focusing on the 2015 targets and sustainable development for these countries and the importance of the poverty reduction strategies. All the issues that have been raised with us have been addressed in this important meeting. The international community will remain alert to these problems. ■

"The world community is completely committed to the processes of poverty reduction and growth."
—Yashwant Sinha

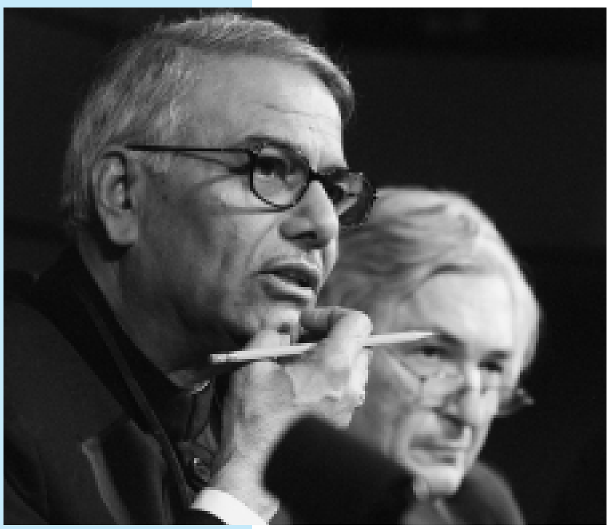
Development Committee communiqué

Ministers stress that good policies are at core of successful development programs

The sixty-third meeting of the Development Committee was held in Washington on April 30 under the chairmanship of Yashwant Sinha, Minister of Finance of India. The Committee also met on April 29 in joint session with the International Monetary and Financial Committee (IMFC) to focus on strengthened cooperation to foster growth and fight poverty in the world's poorest countries.

Strengthening Bank support for middle-income countries

Ministers broadly welcomed the proposals put forward by the Bank following the work of the World Bank Group Task Force on Middle-Income Countries. They noted that combating poverty in this group of countries was essential for meeting the international development goals, and reemphasized the Bank Group's important role in supporting these countries' growth and poverty reduction efforts. The Committee noted that good policies, and the institutions to implement them, were at the core of successful development programs, and welcomed that an increasing number of countries were adopting this approach; that external resources were most effective when supporting such policies and institutions; and that even countries with access to international financial markets may benefit from Bank financial support, since their access is often limited, volatile, and restricted to short maturities. Ministers recognized that such volatility can lead to disruptions and cause substantial adverse effects on poverty levels. Ministers stressed that since in most cases the Bank Group's share of a country's overall external financing is small, its role must be selective and strategic—as a catalyst for policy and institutional change, including capacity building, as well as for pro-poor policies, for stable and sustainable private investment flows, and for policy and financial support from development partners in promoting sustainable and equitable growth and poverty reduction.



Development Committee Chair Yashwant Sinha (left) with World Bank President James Wolfensohn.

Following on their discussion of this topic at the Committee's previous meeting, ministers reiterated the need to tailor Bank Group support to the widely differing circumstances found among this diverse set of countries. The Committee stressed that to ensure country ownership, this support must be grounded in the country's own vision of development. This should serve as the starting point for the Bank Group Country Assistance Strategy, backed by strong diagnostic and other economic and sector work. The Bank should systematize and strengthen its analysis of the country situation, including by expanding, in concert with its partners, support for local capacity building. Ministers noted the particular importance of stronger analysis on structural, social, and sectoral issues and priorities, as well as on public expenditure, procurement, and financial management systems.

Ministers noted the importance of a menu of lending instruments reflecting borrowers' different needs, objectives, and track records, and Bank Group comparative advantage. They stressed that lending must be based on country commitment to poverty reduction. The Committee reemphasized the continued importance of Bank investment lending, set within a sound Country Assistance Strategy framework, as a powerful vehicle for transferring knowledge, testing and demonstrating new approaches, building government capacity, and supporting the provision of needed social services and infrastructure. Ministers welcomed the improving quality and developmental focus of adjustment lending. They stressed that its envisaged more systematic use must be matched by commitment to policy and institutional reforms or a proven track record. It must also be underpinned by adequate country policies and fiduciary systems and, where needed, action to strengthen them. In this regard, ministers stressed the importance of strong capacity for managing and accounting for public expenditures. They called for a more transparent and systematic approach to the monitoring and forecasting of the mix of overall World Bank lending—between investment and adjustment lending—to complement the Country Assistance Strategy process. They also discussed the proposed deferred drawdown option and its potential value for a group of reforming countries, which is likely to be small in number, and encouraged the Bank to complete the work needed to finalize the proposal for consideration by the Executive Directors.

Ministers urged the Bank to translate its proposals into specific actions for strengthening the Group's analytic and financial support for middle-income countries. They emphasized that the Bank must be highly selective in what it does, drawing increasingly on analyses by other development partners and by the countries themselves, and looking to development partners to take the lead in supporting reforms in particular sectors where they have a comparative advantage. They attached particular importance to the Bank and the IMF using these proposals as an element in enhanced cooperation at the country level.

Harmonization of policies and procedures

Ministers stressed the importance of harmonizing operational policies and procedures by the Bank, other multilateral development banks, and bilateral aid donors, with the objective of enhancing development effectiveness, increasing efficiency, and reducing administrative burdens and costs for recipient governments. The Committee stressed the need to move more rapidly, while maintaining appropriate standards, to harmonize aid management arrangements, in particular to help low-income countries implement their poverty reduction strategy papers [PRSPs]. Ministers noted that harmonization in individual country programs provides a pragmatic approach that can lead to early action and encouraged all development partners to rely increasingly on the borrower government's own planning and budgetary processes, helping to strengthen these systems and processes where needed. Ministers urged them to work with developing countries to develop common good practice approaches for procurement, financial management, and environmental assessments. They stressed that such approaches would provide a good basis for fostering capacity building by guiding action plans designed to help countries address country priorities. They encouraged the World Bank and its partners—including other multilateral development banks and the OECD [Organization for Economic Cooperation and Development]/DAC [Development Assistance Committee] Working Group on Harmonization—to work together to develop an overall framework (including time-bound action plans) to help guide and coordinate future work in this area. The Committee looked forward to receiving a report from the Bank on progress against an action plan of specific changes to its own procedures to facilitate harmonization.

Global public goods

The Committee welcomed the Bank's progress in supporting global public goods in the areas endorsed by the Committee at its last meeting—namely, communicable disease, trade integration, financial stability, knowledge, and environmental commons. The Committee welcomed the Bank's commitment to anchor its global public goods activities in its core business and country work, to remain selective and focused in each of these areas, to consolidate its cooperation and division of labor with other international partners, and to carry out further analytical work with its development partners on the financing arrangements and governance required for support of global public goods, including cautiously exploring a possible role for International Development Association grants.

Leveraging trade for development

Ministers reemphasized the critical importance of trade for economic growth and poverty reduction and the important role the Bank, in collaboration with its partners, can play in helping developing countries to increase their ability to access global markets. In this context, they welcomed recent initiatives taken by a number of countries. The Committee broadly endorsed the global-, regional-, and national-level work program set forth in the Bank's paper prepared for this meeting, including, most importantly, expanded activities at the country level that would increasingly be highlighted in the Bank Country Assistance Strategies. This would include support for countries to address trade issues in their PRSPs. The Committee agreed on the particular significance of focusing on "behind the border" issues—such as investment regulations, obstacles to efficient transport of goods and materials, standards and technical regulations, telecommunications, and business services—to ensure that countries are able to take full advantage of the opportunities presented by globalization. In response to the need to increase the capacity of the poorest nations to participate more effectively in the international trading system, the Committee urged the Bank to work together with its partners to achieve maximum benefits from the recently strengthened Integrated Framework for Trade-Related Assistance for the Least Developed Countries. In this context, the Committee welcomed efforts to untie aid, including the recent ad referendum decision by OECD donors to untie their aid to the least developed countries.

HIV/AIDS

Ministers welcomed the rapid growth of global attention to HIV/AIDS in the year since the Committee had described the epidemic as a grave threat to development progress in many areas of the world, especially in Africa. They noted with great concern, however, the still unchecked spread of HIV/AIDS, the growing evidence of its devastating toll, and the continuing need for greater government leadership. Ministers urged that the new commitment reflected by many leaders of developing and developed countries be converted quickly into coordinated and focused international action for prevention, educa-

"The Committee noted that good policies, and the institutions to implement them, were at the core of successful development programs."
—Development Committee communiqué

tion, and comprehensive care, including broader access to treatment. The Committee urged that the epidemic be addressed on a multisector basis, including a focus on HIV/AIDS in development policies and assistance to governments in health and other sectors. In particular, ministers suggested that World Bank Country Assistance Strategies analyze the impact of HIV/AIDS and indicate appropriate responses, working with partners in the context of each country's national HIV/AIDS strategy. The Committee expressed its appreciation for the actions taken thus far by the Bank to implement the strategy that ministers had reviewed a year ago, and encouraged the Bank to work with its partners to continue expanding efforts in all geographic regions. The Committee also urged the Bank and the United Nations to play an active role as a facilitator of the improved links between the pharmaceutical industry and developing countries in support of AIDS-related programs. The Committee also recognized the need for a substantial increase in global resources for HIV/AIDS-related analysis, research, and action programs; a portion of such increased funding might be channeled through a possible new multilateral trust fund for AIDS, malaria, and tuberculosis. The Committee also called on participants in the June 2001 UN General Assembly Special Session on HIV/AIDS to make concrete commitments that would produce a rapid intensification of global action on HIV/AIDS.

At the Development Committee meeting, World Bank President James Wolfensohn (left) greets Clare Short, U.K. Secretary of State for International Development and Gordon Brown.

International financial architecture

Ministers welcomed the continuing contributions of the Bank and the IMF, in partnership with other groups, in strengthening the international financial architecture and helping countries build the capacity required to participate in, and benefit from, the global financial system. The joint Bank-IMF Financial Sector Assessment Program and Bank-IMF collaboration on the ROSCs [Reports on Observance of Standards and Codes] have established a valuable framework for helping countries strengthen their financial and economic systems. The Committee welcomed the Bank-IMF Guidelines for Public Debt Management, which would help governments build capacity to manage their debt, thereby reducing vulnerability to potential financial instability. Ministers also welcomed the Principles and Guidelines for Effective Insolvency and Creditor Rights Systems and encouraged their further development based on close consultation with borrowing countries, additional comments received, continuing work with partner institutions, and experimentation with country assessments.

Ministers agreed that money laundering is an issue of global concern, affecting both large and small economies. The Committee generally agreed with the recognition of the FATF [Financial Action Task Force] 40 Recommendations as the appropriate standard for combating money laundering, and that work should go forward to determine how the recommendations could be adapted and made operational in the work of the IMF and the Bank. In this regard, the Committee noted that, to be consistent with the ROSC process, assessments should be undertaken on a uniform, cooperative, and voluntary basis. The Committee urged closer collaboration by the IMF and the World Bank with the FATF and other anti-money-laundering groups in reviewing standards and procedures in this area. Ministers also noted that the Bank and the IMF are already making valuable contributions through their ongoing programs to help countries strengthen their economic, financial, and legal systems. They agreed that the primary responsibility for actions against money laundering rests with the countries themselves and with specialized institutions that have a mandate and expertise in this area. The Committee observed that the main focus of the Bank, consistent with its development mandate and comparative strengths, would be on enhanced support for capacity building and on helping countries identify and put in place the policy and institutional foundations needed to reduce the risks of financial abuse.

Next meeting

The Committee's next meeting is scheduled for October 1, 2001, in Washington. Ministers considered it might be timely at this meeting to discuss issues arising in connection with the UN Financing for Development event scheduled for early 2002, based in part on a continued exchange of views between their representatives at the United Nations and the Bank and the IMF. Ministers also agreed to consider, at a future meeting, the subject of education, including implementation of the Dakar commitments on education for all. ■

Group of Seven

Statement endorses implementation of policies designed to promote productivity growth

Following is the edited text of the statement issued by the finance ministers and central bank governors of the Group of Seven on April 28 in Washington.

We met today to discuss recent developments in the world economy, strengthening the international financial system, the reform of the multilateral development banks, and measures to meet the challenges of international development. We also met with the Finance Minister and the Deputy Central Bank Governor of Russia and with representatives of the European Commission to discuss recent developments in the Russian economy.

Group of Seven economies

Although global growth has slowed over the past year, the foundations for economic expansion are sound. In fact, the prospects for improving the world standard of living are compelling. We are all dedicated to the proposition that it is in the interest of the world economy for each of our economies to grow closer to their potential. We agreed that we should be vigilant and forward looking in maintaining and implementing policies that promote strong productivity growth, including sound macroeconomic policy, structural reform, and international economic cooperation. We will work together to achieve the goal of free trade. We recognize that lower energy prices and stable oil markets are important.

• In the United States, growth has slowed sharply. However, long-term economic fundamentals—productivity gains and factor market flexibility—remain strong. Monetary policy should continue to be aimed at contributing to sustained growth and maintaining price stability. Fiscal policy should also be targeted at bolstering long-term fundamentals.

• Growth in Canada has also slowed; in the United Kingdom, the slowdown appears to be only moderate. In both countries, unemployment and inflation remain low. Policies should continue to support the foundations for sustained growth and employment over the medium term, while meeting inflation targets.

• In the euro area, growth prospects have moderated, though remaining favorable. Policies should continue to emphasize strengthening potential growth and lowering unemployment through further structural reforms that increase the efficient operation of labor and product markets. Fiscal policy should aim to improve economic efficiency, notably through tax reform, while preserving the pace of the consolidation of public finances.

• In Japan, economic activity has weakened, and prices continue to decline. Against this background, monetary policy should continue to provide ample liquidity until consumer price inflation stays at or above zero. Vigorous implementation of financial and corporate sector reforms is needed in order to support medium-term recovery.

Exchange rates

We discussed developments in our exchange and financial markets. We reiterated our view that exchange rates among major currencies should reflect economic fundamentals. We will continue to monitor developments closely and to cooperate in exchange markets as appropriate.

Broader global economic developments

The slowing in the pace of global economic activity has also affected the prospects for growth in the emerging market and developing economies. In Asia, on the whole, after two years of strong growth, there are clear signs of a slowdown. Throughout the region, the implementation of structural reforms will be crucial to fostering strong, sustained growth. In Latin America, where growth also has slowed, structural measures are needed to raise productivity growth, and further fiscal consolidation is required to reduce financing requirements. In central and eastern Europe, reforms undertaken during the past few years have contributed to recent strong growth; fiscal consolidation and further structural reforms are needed to maintain performance. In Africa, although growth continues to rise, per capita incomes remain very low. Implementation of credible macroeconomic and structural adjustment remains a prerequisite for strong growth and broad-based poverty reduction.

At the gathering of Group of Seven finance ministers are (left to right) Gordon Brown (United Kingdom), Hans Eichel (Germany), Laurent Fabius (France), Paul O'Neill (United States), Vincenzo Visco (Italy), Masajuro Shiokawa (Japan), and Paul Martin (Canada).

We agree that free trade is an important driver of economic growth. Open markets can increase efficiency and productivity, thereby promoting development and poverty reduction in all countries. We strongly support efforts to launch a new World Trade Organization round this year, to reduce trade barriers in both industrial and developing countries. We also welcome industrial country initiatives that, by providing improved market access for exports from the poorest countries, will facilitate their integration into the world economy. It would be appropriate for the IMF and the World Bank to reflect on ways and means to facilitate trade liberalization.

Turkey

We welcome Turkey's strong economic reform program as a basis for Turkey to reach agreement with the IMF on a package that merits the continued support of the international community's public and private sectors. We look forward to Turkey's rigorous implementation of all these necessary measures. In this context, we welcome the decision of the IMF and the World Bank to provide additional assistance for the program.

Russia

We welcome the continued growth of the Russian economy and encourage the Russian authorities to step up the pace of economic reforms that are necessary for sound and sustainable economic development. Russia needs to take steps to create an economic environment conducive to investment, both foreign and domestic, such as enforcing the rule of law, promoting the free flow of information, attacking nonpayments and barter, strengthening the banking system, and improving corporate governance. We urge the Russian authorities to draw on the expertise of the IMF and the World Bank in addressing these issues. We welcome the ratification by the Duma of the Strasbourg anti-money-laundering convention and urge the Russian authorities to move quickly to remedy the deficiencies identified by the Financial Action Task Force in June 2000, in particular by passing a comprehensive anti-money-laundering law. These steps would help facilitate Russia's integration with the global economic system.

Crisis prevention, crisis resolution, and the IMF

We stress that strong and effective crisis prevention is a top priority. Both the IMF and individual countries should play key roles in this effort. Learning from previous experience, and with a view to forestalling crises, we resolve to monitor economic and financial developments more closely and to encourage early action to correct policies. In this context, we underscore the following:

- Enhanced IMF surveillance is at the heart of crisis prevention. As part of this effort, the IMF should accelerate its work in developing and publishing indicators of national balance sheet and liquidity risk. The IMF should also further its work in building up and publishing macroprudential indicators for the financial sector.
- We believe that implementation of internationally agreed standards and codes offers countries the opportunity to strengthen their basic infrastructure for growth and stability and to provide information to markets in a way that reinforces these goals. In this context, we encourage all countries to intensify their efforts, recognizing their different stages of development and institutional capacities, to meet international codes and standards and to publish their Reports on the Observance of Standards and Codes. ■

Group of 10

Participants discuss financial sector consolidation

Following is the communiqué of the Group of 10 industrial countries, issued in Washington on April 29.

The finance ministers and central bank governors of the countries of the Group of 10 met in Washington on April 29, 2001. The meeting was chaired by Hans Eichel, the Minister of Finance of Germany and current Chair of the Group of 10. Ministers and governors took note of reports from Henk Brouwer, Chair of the Deputies of the Group of 10; Mario Draghi, Chair of Working Party No. 3 of the Organization for Economic Cooperation and Development; and Andrew Crockett, General Manager of the Bank for International Settlements.

Ministers and governors exchanged views on the implications of consolidation in the financial sector. They noted that, as a result of the noticeable acceleration in consolidation activity in the last few years, a number of large, and in some cases increasingly complex, financial institutions have been created. Existing policies appear adequate to contain individual firm and systemic risks now and in the intermediate term. However, consolidation may increase the challenges that could arise if a large and complex financial organization encountered serious financial difficulties. These challenges are heightened by the fact that insolvency arrangements differ markedly across countries. For these reasons, ministers and governors stressed the need for ongoing, close cooperation and communication among the competent authorities, both across sectors and across borders. They also underscored the need to evaluate steps that could be taken to improve legal and institutional arrangements in order to make the global financial system more robust and efficient.

Ministers and governors discussed structural issues relating to asset price movements and their implications for global financial stability. They underlined the need for a better understanding of the fundamental factors driving asset prices. They noted the role of information, expectations, and market dynamics in influencing asset prices, and they underscored the importance of transparency and the provision of timely, relevant, and accurate information for facilitating the proper assessment of risk and the determination of asset values. Ministers and governors encouraged efforts in all forums that seek to make the financial sector more resilient to movements in asset prices through the pursuit of sound macroeconomic policies and the adoption of coherent structural policies. In particular, they considered it useful to evaluate the effects of structural policies on asset price determination. ■

Group of 24 communiqué

Ministers welcome progress on HIPC and PRSP, call for fresh efforts to open access to markets

Following is the text of the communiqué of the Group of 24, issued on April 28 in Washington.

Ministers of the Intergovernmental Group of 24 on International Monetary Affairs held their sixty-fifth meeting in Washington on April 28. Joseph Sanusi, Governor of the Central Bank of Nigeria, was the Chair, with Alain Bifani of Lebanon as First Vice-Chair and Senator Gerald Yetming of Trinidad and Tobago as Second Vice-Chair. The meeting of the ministers was preceded on April 26–27 by the seventy-seventh meeting of the Deputies of the Group of 24, with Ramsey Mowoe of Nigeria as Chair.

Global economic outlook

The outlook for the world economy has worsened in recent months, reflecting the slowdown in the U.S. economy, compounded by the failure of recovery efforts in Japan and slower growth in Europe. This has created large uncertainties and risks, making economic management among developing countries more difficult. The implications of this for developing countries are severe, particularly in terms of lower exports against the backdrop of weakening demand in advanced economies and a secular decline in nonfuel commodity prices.

Furthermore, a growing risk aversion in the capital markets may lead to a sharp decrease in private capital flows to developing countries. This outlook calls for greater vigilance within the international community and for greater policy coordination among the major currency areas. In this context, the maintenance of adequate and stable flows of public capital becomes imperative if developing countries are to avoid having to take drastic contractionary measures. This applies not only to official development assistance flows to the poorer countries but also to flows from the international financial institutions.

Support for low-income countries

Enhanced HIPC Initiative. Ministers welcome the progress made under the enhanced HIPC [Heavily Indebted Poor Countries] Initiative. They, however, note with concern that only one country has reached the completion point and urge that efforts be redoubled to bring more eligible countries to the completion point at the earliest date. Ministers stress the importance of HIPCs having access to adequate and additional concessional financing so that the objectives of higher growth and long-term debt sustainability may be achieved. Ministers recognize the need to ensure that HIPC relief is directed toward reducing poverty, with priority given to social spending in the areas of education and health, including fighting HIV/AIDS and other pandemics. In this context, substantial technical assistance will be needed to support the public finance systems of HIPCs, including effective public expenditure management.

Ministers welcome the contributions of multilateral and bilateral creditors to the initiative and urge them to ensure that the HIPC Trust Fund is adequately funded, with due consideration to the special circumstances of developing country creditors. They also call for additional funding to meet the needs of countries with protracted arrears, which have not been included so far in the costing exercise.

Outgoing Chair of the Group of 24 Germán Suárez, Governor of the Reserve bank of Peru, shows incoming Chair Joseph Sanusi, Governor of the Central Bank of Nigeria, to his seat.

Poverty reduction strategy paper (PRSP) process. Ministers note the progress made with respect to the PRSP process. In this regard, they emphasize the need to keep conditionality simple, realistic, and focused on a few key issues and to ensure that the modalities for the preparation and approval of the PRSP are designed to be consistent with the existing institutional framework in the country concerned. Ministers also urge that donors provide support to the HIPCs in the form of budgetary assistance. They welcome the introduction of the PRSC [Poverty Reduction Support Credit] instrument of the Bank and stress the importance of avoiding overlap, conflicting advice, and cross-conditionality with the IMF's Poverty Reduction and Growth Facility.

Communicable diseases. Ministers note with deep concern that the HIV/AIDS pandemic has continued its alarming spread, with almost 95 percent of those infected residing in developing countries. They are encouraged by the increased global awareness of the disease and of the threat that it poses to international development. Ministers welcome the World Bank's expanded support through the multicountry AIDS program recently approved for African countries. Ministers urge the Bank to further expand its funding of HIV/AIDS projects, strengthen support for the use of HIPC resources for combating the disease, explore the use of grants for HIV/AIDS programs in all affected developing countries, and establish a global trust fund for addressing the disease. They also urge the Bank, under the Accelerated Access Initiative, to continue its support for making appropriate drugs affordable and accessible, and to strengthen its partnerships with UNAIDS and other important actors in the effort to develop a vaccine. Ministers stress the need to complement these efforts with a parallel effort to address other diseases that continue to constrain the development of low-income countries, including malaria, tuberculosis, and other communicable diseases. In this context, they commend the Bank and its partners for establishing the Rollback Malaria Initiative and urge them to continue to pursue innovative ways of addressing other communicable diseases.

Countries in conflict

Ministers note with dismay the continuation of armed conflicts in many low- and middle-income countries and the major impediment these present to their development. They underscore that conflict resolution must be given top priority if the strategy for growth and poverty reduction is to succeed. In particular, ministers urge support for the Organization of African Unity's Mechanism for Conflict Prevention and Resolution. Most countries in conflict are heavily indebted, often with arrears to the international financial institutions. Ministers urge the Bank and the IMF to further enhance their special policies and instruments to assist countries emerging from conflict, and to help meet their substantial technical assistance needs by enlarging the Bank's Postconflict Fund, broadening the scope of IDA [International Development Association] grants, and helping to mobilize donor funding. Ministers stress the need for the HIPC framework to be flexibly implemented to accommodate the special circumstances of postconflict countries by shortening the track record required for both the decision point and the floating completion point, as well as by front-loading interim assistance. Ministers encourage the Bank and the IMF to give particular consideration to the case of postconflict countries in arrears and seek effective mechanisms for addressing their special needs, in collaboration with other development partners. Ministers also urge the Bank and the IMF to design appropriate policies to tackle the special development difficulties of middle-income countries emerging from conflict.

G.L. Peiris (left), Sri Lanka's Minister of Industrial Development and Deputy Minister of Finance, discusses Group of 24 matters with South Africa's Minister of Finance Trevor Manuel.

Trade and development

Ministers welcome the World Bank's increased support for developing countries' efforts to leverage trade and investment into faster economic growth and poverty reduction. They note that developing countries have become more important players in the global market as their share of world trade has increased substantially in the last three decades. Ministers recognize, however, that many developing countries, particularly low-income countries, have not benefited from this trade expansion. This is due, in part, to protectionist mechanisms, such as antidumping and countervailing duties, as well as subsidies in advanced economies and the slow implementation of trade liberalization agreements, such as those in agriculture, which impose prohibitive costs on developing countries. Barriers to developing country exports in industrialized markets continue to severely disadvantage developing countries. For example, industrial countries spend more than $300 billion a year on agricultural subsidies, which is roughly equivalent to the total GNP of sub-Saharan Africa, and their tariffs on meat, fruit, and vegetables—all primary exports from the developing world—can exceed 100 percent. These have the effect of inhibiting developing country exports and competitiveness. It is conservatively estimated that costs in terms of forgone income to developing countries from trade restrictions on their exports exceed $100 billion a year. It is pertinent to note that aggregate aid flows to developing countries are less than $60 billion a year. Furthermore, foreign direct investment flows remain concentrated in a small number of developing countries, but many more have yet to receive foreign direct investment at the levels necessary to spur their development.

Ministers urge the Bank to support the efforts of developing countries to use the multilateral system more effectively to promote trade and development by increasing their access to global markets. This will involve preparing them for a new round of trade negotiations and supporting their capacity-building efforts for accession to the WTO [World Trade Organization]. Ministers welcome the European Union's "Everything But Arms" initiative to grant lower-income developing countries duty-free and quota-free access to its markets while fulfilling its obligations to its traditional developing country trading partners. They also welcome a similar initiative by the government of New Zealand.

Ministers urge the IMF to continue to strengthen its work on trade policy advice and encourage both the Bank and the IMF to work in collaboration with other relevant international entities, such as the WTO, the United Nations Conference on Trade and Development, the International Trade Center, the United Nations Development Program, and the regional development banks, to provide policy advice and lending to developing countries for capacity building, the expansion and diversification of exports, and infrastructure development, so as to expand trade and accelerate their integration into the global economy. They note the lack of progress since the establishment by the World Bank of the International Task Force on Commodity Risk Management in Developing Countries for addressing the adverse impact of price volatility on developing countries, and look forward to speedy implementation of the initiative.

International financial system

Ministers note the significant progress made in strengthening the international financial system through the development of international codes, standards, and best practices, to be applied by both developed and developing countries. They continue to underscore the need to ensure that the observance of standards and codes remains voluntary, duly recognizing the country-specific circumstances and stages of development, including administrative and institutional constraints. The work of the Bretton Woods institutions on such standards and codes should not extend beyond [the institutions' core areas, and … observance of the standards and codes] should not be incorporated in program conditionality. Significantly more technical assistance, additional resources, and adequate time are essential to strengthen developing countries' implementation capacities. Ministers underscore the importance of addressing the existing weaknesses in the regulatory framework of the financial sectors of advanced economies, including in areas such as hedge funds and the supervision of offshore financial centers, to ensure uniform application of standards of transparency.

Ministers agree that combating money laundering is a matter of global concern and important to the protection of the integrity of the international financial system. Efforts to combat money laundering should be based on a cooperative strategy involving both developed and developing countries and should encompass not only offshore centers, but also large financial centers, where most of the financial flows originate. Ministers caution against the nonvoluntary and noncooperative manner in which the FATF [Financial Action Task Force] 40 Recommendations are currently applied to non-FATF members. They also agree that monitoring the implementation of anti-money-laundering standards should take full account of members' capabilities and stage of financial sector development, and should not be used as a means of diverting legitimate financial resources away from developing countries. Ministers stress the importance of technical assistance to facilitate the effective implementation of anti-money-laundering measures. While emphasizing that the focus of the IMF and the Bank should be limited to their respective mandates, they consider that for the ROSC [Report on the Observance of Standards and Codes] and FSAP [Financial Sector Assessment Program] processes, the Bretton Woods institutions will need to work closely with other international bodies. Ministers caution against the Bretton Woods institutions' involvement in the law enforcement aspects of anti-money-laundering policies. They also caution against relying on the FATF for ROSC assessments, which should remain the responsibility of the Bretton Woods institutions.

Ministers underscore the catalytic role of the IMF and the Bank in the resolution of financial crises in ways that can effectively help to involve the private sector. Given the limited availability and accessibility of IMF resources to developing countries, they stress the importance of supplementing IMF financing with official bilateral financing. Ministers urge that special attention be given by the Bretton Woods institutions to improving developing country access to international capital markets and to developing domestic capital markets, and express the hope that the recent establishment of the International Capital Markets Department in the IMF and the creation of the Capital Markets Consultative Group will help in this regard. While welcoming the ongoing work on involving the private sector in the prevention and resolution of financial crises, they stress the need to maintain a voluntary approach under which member countries are ultimately responsible for negotiating with their private creditors.

Conditionality

Ministers note that IMF conditionality has become excessive during the last decades in both magnitude and scope, particularly in areas that lie outside the IMF's mandate and expertise. They emphasize the need to take into account the institutional capacity and domestic legislative processes of program countries in implementing conditionality. Furthermore, excessively broad and detailed conditionality undermines the national ownership of programs, which is essential for their successful implementation, and hinders compliance with the IMF's conditionality. The conditions applied to low-income country programs seriously strain their administrative capacity, especially when they are combined with additional conditions included in programs with the World Bank, the regional development institutions, and bilateral donors. Ministers welcome the review initiated by the Managing Director of the IMF of the scope of conditionality in IMF-supported programs and the decision of the IMF Board to implement the proposed shift from broad coverage to a more selective application of conditionality. They emphasize that the objective is not to weaken but to streamline conditionality and make it better focused, more effective, and less intrusive, as well as to enhance program ownership. Ministers stress the importance of the principle of uniformity of treatment of all countries, while taking into account the particular circumstances of each country. In addition, they underline the importance of a comprehensive revision of IMF program design. They stress the need for technical assistance for the development of institutional capacities in these countries. Ministers note that efforts to streamline conditionality should also address the issue of how to better define the division of labor between the IMF and the World Bank while preventing cross conditionality. Conditionality in areas outside the IMF's mandate should not be included in IMF-supported programs.

"Efforts to attain the international development goal of halving poverty by 2015 will require the mobilization of significant funding throughout the development community."

—Group of 24 communiqué

Resource flows to developing countries

Ministers recognize that the development agenda is enormous, and efforts to attain the international development goal of halving poverty by 2015 will require the mobilization of significant funding throughout the development community to sustain and expand the many initiatives designed to address the challenges of development. Ministers note that aid as a proportion of donor GNP remains low at 0.24 percent—far short of the 0.7 percent UN target.

Ministers note that negotiations for the thirteenth replenishment of IDA resources are currently under way, and urge donors to ensure that IDA-13 is adequately funded to meet the increasing needs of the poorest countries, many of which are reactivating dormant programs as they emerge from conflict and indebtedness. Africa continues to deserve special priority, and ministers urge that IDA lending to the region meet the 50 percent target agreed under previous replenishments.

Ministers reaffirm the important role the World Bank Group continues to play in helping to reduce poverty in middle-income countries, where nearly 80 percent of the world's poor reside, by increasing direct lending and helping to leverage sustainable private flows to these countries. They encourage the Bank to expand its menu of lending instruments to match the needs of middle-income countries through a prudent balance of investment lending, programmatic adjustment lending, and strengthened economic and sector work.

Ministers underscore the importance of the United Nations Conference on Financing for Development, to be held in 2002 in Mexico. They emphasize the need for the full engagement of the Group of 24 in its preparatory process.

Governance of Bretton Woods institutions

Ministers welcome the establishment of the independent Evaluation Office in the IMF and commend the Board for the cooperative and transparent manner in which the Director was selected. Ministers also welcome the endorsement of the Boards of the IMF and the World Bank of the joint report on the selection of the heads of the two institutions, which draws on the proposals made by developing countries.

Ministers stress the need for the IMF and the World Bank to ensure that developing countries have a larger

IMF Executive Board discusses money laundering, sees it as a threat to financial system integrity

Following are edited excerpts of IMF Public Information Notice (PIN) No. 01/41, released April 29, on the IMF Executive Board's April 13 discussion of money laundering. The complete text of the PIN is available on the IMF's website (www.imf.org).

Executive Directors welcomed the opportunity to review issues related to money laundering and to consider the staff's proposals for incorporating work on these issues into the IMF's and the World Bank's various activities, as requested by the IMFC. They agreed that money laundering is a problem of global concern—affecting major financial markets as well as smaller ones—and that to address it, international cooperation should be stepped up. Directors also agreed that the IMF has an important role to play in protecting the integrity of the international financial system, including through efforts to combat money laundering. They emphasized, however, that the IMF's involvement in this area should be strictly confined to its core areas of competence.

Directors recognized that more vigorous national and international efforts to counter money laundering are needed. These efforts should encompass the promotion of sound financial systems and good governance, the design and implementation of judicial and legal reform and other related capacity-building programs, and effective law enforcement. Directors pointed out that financial regulation and supervision, based on internationally recognized standards, play an important role in preventing financial abuse, including money laundering. However, they stressed that financial/supervisory regulation needs to be backed by legal/criminal enforcement.

What the IMF should do

Directors generally agreed that the IMF should take the following steps to enhance international efforts to counter money laundering: intensify its focus on anti–money laundering elements in all relevant supervisory principles, work more closely with major international anti–money laundering groups, increase the provision of technical assistance, include anti–money laundering concerns in its surveillance and other operational activities when macroeconomically relevant, and undertake additional studies and publicize the importance of countries acting to protect themselves against money laundering.

Directors considered that intensifying the focus on anti–money laundering elements in supervisory principles will help ensure that financial institutions have in place the management and risk control systems needed to deter financial abuse. They noted that financial sector supervisory principles already assessed under the Financial Sector Assessment Program (FSAP) include elements that are relevant to money laundering and have an analogue in certain aspects of the FATF 40 Recommendations.

Directors endorsed the proposal to develop a methodology that would enhance the assessment of financial standards relevant for countering money laundering and could be used for preparing reports in each FSAP on observance of all relevant principles. The recently approved expansion of the FSAP and the ongoing offshore financial center assessments will allow an increasing number of members to benefit from the IMF's work on strengthening financial systems and countering money laundering. Directors agreed that results from such FSAP and offshore financial center assessments could be voice in the decision-making processes of these institutions. They note that the workload of the chairs representing developing countries—particularly the African chairs—on the boards of the IMF and the World Bank has increased significantly as a result of the PRSP process, the HIPC Initiative, and post-conflict and arrears cases. In this regard, ministers welcome the recent decision of the IMF's Board to increase the staffing of Executive Directors' offices, and they urge the Bank Board to follow suit. Moreover, ministers encourage the Bretton Woods institutions to enhance the representation of developing country nationals in the staffs of these institutions.

Ministers welcome the broad support already attained for the Fourth Amendment on the equity allocation of SDRs. They urge the rest of the membership to adopt the amendment as soon as possible. Ministers also urge the IMF to continue to study possible mechanisms to help stabilize financial market conditions.

Ministers express their appreciation for the research work on international financial and development issues coordinated by the Group of 24 and for the financial support provided by various countries and organizations, which complement the Group of 24's own efforts. These research efforts need to be considerably strengthened and would require additional funding. Given the complementary nature of this research with the research conducted by the IMF and the Bank, ministers consider that it would be appropriate for the Bank and the IMF to supplement this assistance annually from their research budgets. This would help build capacity in Group of 24 member countries and contribute to better governance of the Bretton Woods Institutions.

Ministers agree to meet again on September 29, 2001, in Washington. ■

On the dais are (left to right) Alain Bifani of Lebanon (First Vice Chair of the Group of 24), Joseph Sanusi, Germán Yetming of Trinidad and Tobago (Second Vice-Chair), and Ramsey Mowoe of Nigeria (Chair of the Deputies of the Group of 24).

shared with the international community, with the agreement of the member. Publication and circulation to outside agencies of the assessments would be governed by existing IMF policies.

Directors stressed that money laundering issues should continue to be addressed in IMF surveillance when they have macroeconomic effects, including effects arising from financial instability and reputational damage. A number of Directors considered that the cross-border implications of money laundering should be raised during Article IV consultations, even if it is not macroeconomically relevant for that member but when it had significant externalities for other countries. In this context, Directors agreed that more research into the magnitude and economic consequences of financial abuse, including money laundering, should be encouraged. They also agreed that the FSAP, Offshore Financial Center assessments, and Reports on the Observance of Standards and Codes (ROSCs) can help guide and inform surveillance. With regard to conditionality, many Directors were of the view that the "macro-relevance" test should continue to be applied, but a few Directors were opposed to applying conditionality to anti–money laundering measures.

Directors called on all governments, especially those with responsibilities for major financial markets, to put in place the necessary measures to counter money laundering. They endorsed the staff's proposals for increased cooperation with the FATF and regional anti–money laundering task forces, including those relating to the exchange of information with these groupings.

It was generally agreed that the FATF 40 Recommendations should be recognized as the appropriate standard for combating money laundering and that work should go forward to determine how the recommendations could be adapted and made operational to the IMF's work. However, several Directors noted that recognizing the FATF 40 Recommendations did not constitute an endorsement of the nonvoluntary and noncooperative manner in which the FATF applies the recommendations. Most Directors felt that the IMF should cover only those issues in the FATF 40 Recommendations that deal with financial regulation and supervision, and that responsibility for legal/crime enforcement should be left to others. Directors also stressed that the FATF process needs to be made consistent with the ROSC process—that is, the FATF standard needs to be applied uniformly, cooperatively, and on a voluntary basis—and that once this is done, the FATF could be invited to participate in the preparation of a ROSC module on money laundering. They called on the staffs of the IMF and the World Bank to contribute to the ongoing revision of the FATF 40 Recommendations and to discuss with the FATF the principles underlying the ROSC procedures and come back to the Board with a report and proposals.

Directors agreed that the expanded role in combating money laundering should include more technical assistance for members, particularly for capacity building in the preventive areas, with the extra work focusing on adherence to supervisory standards.

Regarding the resource costs arising from money laundering activities, it is clear that additional resources are required for these additional activities, and that the initial estimates will need to be reviewed in light of actual experience. It is noted that there is the potential for some external financing for this specific activity, and any such financing would reduce the impact on the budget. It is too early to request an exact amendment to the budget at this time, but depending on further assessments, management will return to the Board if necessary during the year should a supplemental appropriation be required. ■

Workshop proceedings

Participants discuss IMF role in poverty reduction; links between macroeconomic policies and poverty

Discussant Xavier Sala-i-Martin of Columbia University (left), with Ratna Sahay and First Deputy Managing Director Stanley Fischer of the IMF.

How can the IMF best assist in the global war on poverty? An open panel discussion, chaired by IMF First Deputy Managing Director Stanley Fischer, elicited a variety of answers to this question. The panel discussion was the concluding event of an April 12–13 workshop entitled "Macroeconomic Policies and Poverty Reduction," organized by the IMF's Research Department. The workshop gave IMF economists an opportunity to present research papers on poverty issues in an informal setting before a group of experts drawn from academia and other international financial institutions.

Academics face off on IMF's role

T.N. Srinivasan

In the panel session, T.N. Srinivasan, Angus Deaton, Nicholas Stern, and Robert Townsend debated what the IMF's role should be vis-à-vis other international financial institutions in the war on poverty. Yale's T.N. Srinivasan called for a clear separation of powers between the World Bank and the IMF, arguing that "comparative advantage, a great concept in economics," applied also to the activities of the international institutions. The IMF can best help alleviate poverty, Srinivasan suggested, by focusing on its responsibility to keep the international financial system on an even keel. Sustained growth and poverty alleviation will not come about, he said, if the world financial system lurches from one crisis to another.

While expressing some sympathy for Srinivasan's views, Princeton's Angus Deaton noted that it is not easy to separate the activities of the IMF from those of other international financial institutions. Citing the case of Africa, Deaton said that health outcomes and macroeconomic prospects are now so intertwined in most of Africa that the IMF cannot focus only on the macroeconomy and leave analysis of health outcomes solely to other institutions. Instead, he said, "there is going to have to be some integration and some outreach across the institutions to make progress with difficult and interdisciplinary issues" such as poverty alleviation and appropriate policies on health and education. Illustrating Deaton's point, a paper presented at the workshop by the IMF's Markus Haacker documented the strong macroeconomic impact of the HIV/AIDS epidemic on the countries of southern Africa.

Several other papers highlighted the dependence of growth on the choice of health and education policies, particularly in the context of the appropriate use of debt relief provided by the Heavily Indebted Poor Countries (HIPC) Initiative of the IMF and the World Bank. The IMF's Hong-Sang Jung (in work with Erik Thorbecke of Cornell) studied the dependence of Tanzanian and Zambian growth on the expected boost to education and health spending arising from debt relief. Likewise, analysis by Era Dabla-Norris, John Matovu, and Paul Wade of the IMF suggested that growth could be raised and poverty lowered in Zambia by using debt relief to increase primary education expenditures. Zuzana Brixiová and Ales Bulír of the IMF (presenting work done with the University of Florida's Joshua Comenetz) suggested that the gender gap in education in Eritrea was complicating the task of raising the country's economic growth and reducing its poverty. In a model presented by the IMF's Paul Masson, expenditures on the rural education system could be the appropriate policy response in countries with a wide income differential between urban and rural areas to keep migration from further worsening that differential. Domenico Fanizza and Craig Burnside of the IMF and the Bank, respectively, developed a general macroeconomic model to consider the consequences of HIPC debt relief for desirable fiscal and monetary policies.

IMF and Bank view

Speaking at the panel discussion, Fischer noted that there were compelling reasons for the IMF to continue to play a central role in poverty alleviation efforts. The IMF chiefly lends to low-income countries, where the problems of poverty alleviation loom large. Poor countries will not be able to sustain policies that are not equitable; and countries that provide the bulk of the IMF's financing will not support policies that recipient countries view as anti-poor. You could argue as well that this is the moral thing to do, he said, but people seem to be more comfortable with arguments grounded in *realpolitik* than in morality.

The links between growth and poverty are very complicated and very policy-dependent, Fischer observed. Growth is good for the poor, as illustrated by studies of India (by the IMF's Jahangir Aziz) and of sub-Saharan Africa (by the IMF's Gary Moser in work with Toshihiro Ichida of Columbia University) presented at the workshop. But we need to go a step further, Fischer said, and investigate which pro-growth policies are most effective in reducing poverty.

Nicholas Stern, the World Bank's Chief Economist, suggested that the twin tracks of a pro-poor growth policy are, first, getting the investment climate right and, second, empowering poor people to participate in the growth process. The international financial institutions can help developing countries achieve pro-poor growth by providing aid to countries with strong track records of reform, supporting projects with strong "demonstration effects" for the rest of the economy, supplying ideas and serious analysis, and using the lever of conditionality to foster change. On the latter point, Stern said that the World Bank welcomed "strongly the progress the IMF has made on simplifying conditionality," but added that while conditionality "has to be simple, it also has to be serious."

In a paper presented at the workshop, Ales Bulír and Javier Hamann of the IMF suggested there may be room to reduce the volatility of foreign aid flows through improved design of IMF and Bank programs. Stronger ownership of programs and streamlined conditionality may lead to higher compliance on the part of recipient countries, thereby reducing the occurrence of stop-and-go cycles in aid flows and enhancing the prospects of sustained growth.

Faulty signals from poor poverty data

The poor quality of poverty data often distorts people's views about the impact of growth and financial crises on poverty, according to many participants at the workshop. For instance, it was noted that a lack of reliable data led, initially, to vastly overblown estimates of the adverse impact of the Asian financial crisis on poverty. Concerns were also expressed about the quality of survey data on poverty for India and China—the two countries that together account for a sizable chunk of the world's poor.

Deaton provided a telling example of how data discrepancies are providing the wrong signals about the impact of the recent sustained growth in India on poverty reduction. Since the reforms of the early 1990s, India has had a rapid increase in average incomes and consumption, as measured by its national income accounts. But the official statistics on poverty come from a separate data source, a survey of household consumption. Deaton suggested that this survey is quite likely flawed: despite the growth in average incomes in India during the 1990s, average consumption as measured in the survey has shown no growth. Consequently, there has been very little poverty reduction, according to the official poverty statistics. Deaton said that this is being used as a rod for beating reforms in general, and the World Bank and the IMF in particular. However, the apparent lack of poverty reduction accompanying sustained economic growth, Deaton said, "is not a fact at all … but a statistical discrepancy" between the national income accounts and the survey used to measure poverty.

Basing macropolicies on micro evidence

The University of Chicago's Robert Townsend—renowned for painstaking studies of village economies in India and Thailand—presented new work on Thailand done jointly with the IMF's Kenichi Ueda. Townsend's studies are based on the use of micro data sets—that is, data assembled from surveys and observation of individuals and households.

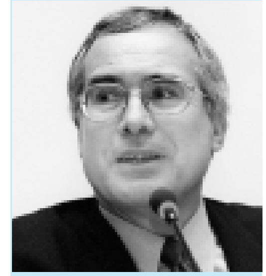
At the panel discussion, Townsend urged the IMF to play a role in helping collect and analyze micro data, just as it had moved "very rigorously and quickly" to improve the macro data disseminated by developing countries. Micro data, combined with theory, can help the IMF do "hard-nosed assessments" of policies intended to be pro-poor. Without such assessments, Townsend warned, the IMF's commitment to poverty alleviation risked becoming a shallow one in which the goal of reducing poverty is simply tacked onto the institution's standard operating procedures.

Townsend also suggested that results obtained from micro data sets can help in the formulation of macroeconomic policies, for instance by identifying segments of the population that may be particularly vulnerable to macroeconomic changes. The workshop offered several illustrations of this point. The IMF's Stephanie Eble and Petya Koeva studied how Russian households adapted their consumption to the 1998 economic crisis; not surprisingly, those with access to land were able to substitute homegrown food for bought food and hence adapted much better than the landless. Work by Luiz de Mello, Emanuele Baldacci, and Gabriela Inchauste of the IMF suggested that the 1995 Mexican crisis had a much more adverse impact on urban than on rural households. The IMF's Eswar Prasad (in work with New York University's Michael Keene) found that the economic transition in Poland lowered the wage premium for experienced workers, while raising it for educated workers.

There's more. . .

A transcript of the panel discussion is available on the IMF's website. A more technical description of the workshop paper—including a full listing of the papers and the presenters and discussants—is forthcoming in the June issue of the *IMF Research Bulletin*. As the workshop papers are revised, they will be posted on the IMF's website. The June issue of *Finance & Development* will also feature an article by Paul Cashin, Paolo Mauro, and Ratna Sahay of the IMF, which provides an overview of research on the links between macroeconomic policies and poverty reduction. ■

Prakash Loungani
IMF External Relations Department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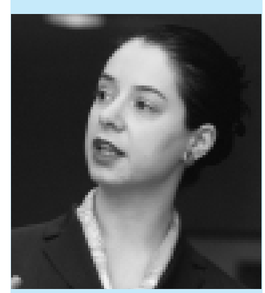
Petya Koeva

Redesigned facility

Boorman says IMF Contingent Credit Lines enhance positive signaling effect, automaticity

Jack Boorman, Director of the IMF's Policy Development and Review Department (PDR), described the IMF's newly designed Contingent Credit Lines (CCL) Facility to a meeting organized by the Bretton Woods Committee in March. Boorman analyzed IMF members' reactions to the CCL, the complexities of introducing this type of instrument to the markets, and the prospects for its future. A summary of Boorman's remarks follows.

Jack Boorman: "the CCL loan facility is intended to defend against future balance of payments problems that might arise from financial contagion."

The IMF's CCL Facility is a new set of lending policies designed to offer countries with sound economic policies a precautionary line of credit to help them counter the effects of financial crises beyond their own making. Whereas IMF loans have traditionally helped countries recover from balance of payments crises, the CCL loan facility is intended to defend against future balance of payments problems that might arise from financial contagion.

Background

The facility was introduced in May 1999 to help emerging market countries cope with recent changes in international capital markets, Boorman explained. "To put it in perspective, in 1990, private capital flows to emerging markets amounted to about $40 billion; in 1997, that figure was at $290 billion," he remarked. The downside risks of these flows have proven enormous: "Even countries with relatively good policies can be pushed . . . to a bad equilibrium when capital flows dry up or reverse. Through herd behavior and contagion, countries can be seriously affected."

For prequalified countries with sound economic policies, CCL resources would help counter potentially damaging capital flow reversals. Perhaps just as important, Boorman added, the IMF hopes the signal broadcast by its commitment of CCL resources—and the judgment that commitment implies about the member's policies—would stabilize the country's position vis-à-vis the capital markets.

CCL design and eligibility criteria

To qualify, the recipient country must have no balance of payments problem at the time the credit line is extended, enjoy constructive relations with its private creditors and take measures to limit its external vulnerability, outline to the IMF's Executive Board the policies it intends to pursue during the one-year period covered by the CCL, and earn a positive assessment of its economic prospects from the Executive Board.

The IMF recognized that relatively large sums of money may be needed, Boorman noted, and therefore placed no access limits on the CCL. It expected commitments to be in the range of 300–500 percent of a country's IMF quota. Charges would be set high and increased over the time outstanding. Maturities would be set short, the resource commitment would be for one year, a mid-term report would be required to evaluate the recipient country's progress, and an activation review mechanism would be employed to consider a country's request to draw under the facility.

Reactions to the CCL

In the first year of the CCL's existence, some countries considered applying for the facility, but ultimately none did. Boorman cited concerns that member country officials and outside critics raised about the new facility. Would capital markets interpret a country's application for the credit line as a sign of strength or a sign of weakness? If the latter, the result could be a negative market reaction and a reversal of capital flows—the very opposite of what was intended. And markets might react negatively to CCL countries leaving the facility—especially if a country's economic situation turned bad, or the IMF did not wish to renew the facility. Critics also speculated that the CCL facility might crowd out private lending; for instance, a CCL country with private market access might prefer to borrow more cheaply from the IMF rather than pay the prevailing private market spreads.

Emerging market countries might also hesitate to apply for the CCL because of what Boorman termed the "club" factor—each is reluctant to be the first to join, fearful of how the private sector will view its association with other countries that might join later. Another factor is cost: a few IMF member countries mentioned that the surcharge and commitment fee dampened their interest. Many interested parties expressed unease about the activation review mechanism and the fact that it was, in their view, insufficiently automatic. Boorman also observed that relative calmness in the global economic environment after the facility was introduced probably led to decreased interest in the insurance that it provided.

Revisions to the CCL

Despite these concerns, there was strong interest, particularly in Latin America, in a facility that would

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

encourage potentially vulnerable countries to frame their economic policies to prevent future crises, Boorman explained. So, the IMF redesigned the CCL in November 2000 to distinguish it more clearly from other IMF facilities, to enhance its positive signaling effect, and to introduce greater automaticity into the availability of the committed resources. According to Boorman, the changes have made the new facility more attractive: the IMF reduced the surcharge on the loan and virtually eliminated the commitment fee; neither a memorandum of understanding nor periodic quantified benchmarks are required; and the mid-term review can be completed on a time-lapsed basis. Most important, Boorman noted, the Board recognized that members want assurance that resources will be quickly available when requested. Thus, the activation review is now divided in two, and the release of resources in the first review is both larger and more automatic than under the previous system.

The IMF is currently discussing eligibility with interested member country officials. Like other facilities that encourage countries to improve their institutional footings, the CCL, Boorman emphasized, will work not through encouragement or lecturing from IMF staff, but only when countries see that it is in their interest to sign up—including the prospect that eligibility for the facility could reduce the spreads paid by emerging market countries in international capital markets. ■

For further information on the Contingent Credit Lines Facility, visit the IMF's website at www.imf.org.

Available on the web (www.imf.org)

Press Releases

01/13: IMF Selects Ahluwalia to Be Director of IMF Evaluation Office, April 16
01/14: Zambia: Third Annual PRGF, April 17
01/15: Latvia: Stand-By Loan, April 20
01/16: Sri Lanka: $253 Million Stand-By, April 20
01/17: Ahluwalia to Assume Directorship of IMF Evaluation Office, April 23 (see page 164)
01/18: Lao P.D.R.: $40 Million PRGF Approved in Principle, April 23
01/19: IMF, World Bank Review Selection Process of Managing Director, President and Release Draft Report, April 28
01/21: IMF Approves Three-Year, $82 Million PRGF Arrangement for Guinea, May 2

News Briefs

01/36: IMF and World Bank Publish Public Debt Management Guidelines, April 13
01/37: Lithuania: Second Review Under Stand-By, April 16
01/38: Papua New Guinea: $48 Million Credit, April 23
01/39: IMF Managing Director Köhler's Statement on Turkey, April 27
01/40: IMF and Brazil Establish a Joint Regional Training Center, April 27
01/41: IMF Management Welcomes Argentina Fiscal Measures, April 28

Public Information Notices (PINs)

01/37: Botswana, April 13
01/38: Canada, April 23
01/39: Tajikistan, April 24
01/40: Lao P.D.R. April 26

Speeches

IMF First Deputy Managing Director Stanley Fischer, "Reducing Vulnerabilities: The Role of the Contingent Credit Line," remarks to the Latin American Central Bank and Finance Ministry Network, April 25

Transcripts

Economic Forum—Governing Global Finance: The Role of Civil Society, April 13
Press Briefing, Joint IMF-World Bank, HIPC Debt Relief Programs and Poverty Reduction, April 23*

Letters of Intent and Memorandums of Economic and Financial Policies*

Vietnam, April 13
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Poverty Reduction Strategy Papers*

Uganda (progress report), April 16
Vietnam, April 16
Lao P.D.R. (interim), April 24

Concluding Remarks for Article IV Consultations*

Czech Republic (preliminary), April 17

Report on the Observance of Standards and Codes*

Latvia, April 18
Estonia (preliminary), April 26

IMF Factsheets

Debt Relief for Poor Countries: What Has Been Achieved?

Other

Policy Statement on IMF Technical Assistance, April 13*
Joint Staff Assessments of Poverty Reduction Strategy Papers (PRSPs) or Interim PRSPs, April 19*
Assistance to Postconflict Countries and the HIPC Framework, by the Staffs of the World Bank and the IMF, April 20*
Fighting Poverty and Strengthening Growth in Low-Income Countries, memorandum to IMFC from James Wolfensohn and Horst Köhler, April 20*
The Challenge of Maintaining Long-Term External Debt Sustainability, by the Staffs of the World Bank and the IMF, April 20*
Heavily Indebted Poor Countries Initiative: Status of Implementation, by the Staffs of the World Bank and the IMF, April 20*
Poverty Reduction Strategy Papers—Progress in Implementation, by the Staffs of the IMF and the World Bank, April 20*
Enhancing Contributions to Combating Money Laundering Policy Paper, by the Staffs of the IMF and the World Bank, April 29
IMF Financial Activities, April 30
Financial Assistance for the Poorest Members—an Update, May 2

*Date posted

World Economic Outlook

Vigorous policy efforts, U.S. economic pickup could limit global slowdown, report states

We are clearly looking at a substantial and broadly distributed slowdown in global economic growth this year; but not—or at least not yet—at a likely global recession.
—Michael Mussa

A slowdown in global economic growth and a measure of uncertainty about its duration and intensity are the principal concerns expressed in the May 2000 *World Economic Outlook*, the IMF's biannual wrap-up of economic developments and prospects. Speaking at a press briefing on April 26 at which the report was released, Michael Mussa, Economic Counsellor and Head of the IMF's Research Department, said: "We are clearly looking at a substantial and broadly distributed slowdown in global economic growth this year; but not—or, at least not yet—at a likely global recession."

A general slowdown

As the *World Economic Outlook* notes, some slowdown from the rapid rates of global growth of late 1999 and early 2000 was both desirable and expected, but the weakening of growth—led by a marked slowdown in the United States, a stalling recovery in Japan, and moderating growth in Europe and in a number of emerging market countries—is proving to be steeper than thought earlier. Accordingly, Mussa said, the IMF staff's forecast for world economic growth for 2000 has been cut by one full percentage point from 4.2 percent to 3.2 percent. For the United States—the mainstay of global expansion in the past decade—growth this year is forecast to be only 1.5 percent, down from almost 5 percent last year, and the lowest for a decade. In the euro area, Mussa said, growth is now expected to be only 2.4 percent—a full percentage point less than expected last September—while in Japan, the situation is even more worrying, with growth now forecast to be barely over 1/2 of 1 percent for this year, and projected to reach only 1.5 percent for next year.

In emerging market economies, according to the *World Economic Outlook*, the revisions to previous forecasts vary, depending in part on the closeness of economic linkages with the United States. Growth has been marked down substantially in emerging Asia and Latin America, although growth in China and India is expected to remain reasonably well sustained. In contrast, most countries in Africa, the Middle East, the transition countries of Central and Eastern Europe, the Commonwealth of Independent States, and Mongolia have been less affected. For the transition countries in particular, Mussa noted, relative optimism still seems warranted, provided that growth prospects for Western Europe do not deteriorate significantly further.

Recovery or recession?

Despite the sharper than expected slowdown in global growth, the *World Economic Outlook* suggests there is a reasonable prospect that the slowdown will be short-lived. This "relative optimism," Mussa said, is strongly supported by the vigorous policy responses already undertaken in several key countries. The U.S. Federal Reserve, for example, has already cut overnight interest rates 200 basis points, he noted, and further moderate cuts may be expected if incoming evidence confirms continuing weakness. Meanwhile, substantial tax cuts now seem certain to begin providing support for demand.

In Japan, however, policy room is clearly more limited, Mussa noted. Under the new monetary policy framework, stimulative actions beyond the return to zero short-term interest rates can and should be used to combat deflation, he said. In addition, the new prime minister has placed a very high priority on aggressive efforts to recognize and resolve problems in the Japanese financial system, which, Mussa said, is essential to lay the foundation for stronger sustained growth and to signal the change in policy approach needed to reinvigorate confidence.

In most other industrial countries, Mussa observed, improvements in fiscal positions in recent years now allow for tax reforms that will help to support demand in the midst of global slowdown. Also, with inflation generally well contained in most other industrial countries, central banks have begun to cut policy interest rates in measured efforts to combat economic weakening.

The euro area, Mussa said, is so far the one important exception to the move toward monetary easing. With growth appearing likely to be better sustained than in the United States or Japan, and with headline inflation still running above its medium-term desired ceiling, the European Central Bank (ECB) has kept policy interest rates on hold since last autumn. Although this generally has been a prudent policy, Mussa suggested that as growth prospects have softened for the euro area and for the global economy, the implications are that inflationary pressures will be less of a concern. Therefore, in a period when general economic slowdown is the principal concern and when inflation is not likely to be a continuing threat, an easing of monetary policy in the euro area—the second largest monetary area in the world—would be helpful for world growth, he said.

The *World Economic Outlook* cites two additional reasons to support its cautiously optimistic projection that the slowdown may be relatively moderate and short-lived:

- Long-term interest rates in the United States have fallen during 2000 and, more recently, short-term rates have been cut significantly. This should begin to have a direct effect on U.S. activity in the second half of the year, providing support to the global economy.

• Although a number of countries continue to face serious difficulties, external and financial vulnerabilities in emerging market economies have been generally reduced since the 1997–98 crisis, and a general shift away from soft exchange rate pegs has improved their ability to manage external shocks.

The *World Economic Outlook*'s baseline scenario projects that economic growth in the United States will pick up during the second half of the year, while growth in Europe remains reasonably robust, and the recovery in Japan resumes in 2002. In emerging market economies, external financing conditions should gradually improve during the remainder of the year, consistent with a modest pickup in capital flows. While global growth in 2001 will still slow significantly, it will remain well above earlier troughs, the study suggests, and return close to trend in 2002. However, the IMF staff study warns, a deeper and more prolonged slowdown in the United States would pose several interlinked risks for the global outlook that would significantly increase the chance of a more synchronized and self-reinforcing downturn developing. In particular, there remains a risk that the substantial imbalances that have developed in the U.S. economy during the expansion, including the high U.S. current account deficit and apparent overvaluation of the U.S. dollar, the negative personal savings rate, and—despite recent declines—still richly valued equity markets, could adjust in a disorderly fashion.

But, Mussa reiterated, it was reassuring that, in the face of this global slowdown, most countries that have flexible policy instruments have responded promptly and reasonably aggressively to the threat that things might be somewhat worse than the *World Economic Outlook* has allowed for in its baseline scenario.

Other policy issues

In addition to its coverage of overall prospects and policy challenges, the *World Economic Outlook* also provides analyses of specific, relevant policy issues. At

Recent publications

Books

A Decade of Transition: Achievements and Challenges, edited by Oleh Havrylyshyn and Saleh M. Nsouli ($26.00)

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01/57: Greece: Selected Issues and Statistical Appendix

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01/59: Vietnam: Request for a Three-Year Arrangement Under the Poverty Reduction and Growth Facility

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01/61: Republic of Yemen: Selected Issues

01/62: Canada: 2001 Article IV Consultation

01/63: Republic of Lithuania: Second Review Under the Stand-By Arrangement

01/64: Colombia: 2001 Article IV Consultation and Second Review Under the Extended Arrangement

01/65: Tajikistan: 2001 Article IV Consultation, First Review Under the Third Annual Arrangement Under the Poverty Reduction and Growth Facility; and Request for Waiver and Modification of Performance Criteria

01/66: Republic of Latvia: Request for Stand-By Arrangement

01/67: Republic of Poland: Financial System Stability Assessment

Other Publications

International Economic Policy Review, Vol. 2, 2000, Paul Masson, Padma Gotur, and Timothy Lane ($20.00)

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the press briefing, David Robinson, Assistant Director, and Tamim Bayoumi, Chief of the World Economic Studies Division in the IMF's Research Department, highlighted some of the key findings of these studies.

One study, Robinson said, looks at the impact of the global fall in the value of technology stocks—which have averaged 20 to 30 percent of GDP in many advanced economies—and its impact on demand. There are indeed significant effects in North America and the United Kingdom, although not very different from those from nontechnology stocks. More surprisingly, there is also a marked effect in continental Europe, although the impact of nontechnology stocks there is rather small. This suggests that the decline in technology stocks will have a significant impact on demand looking forward.

Another study, building on work in the October 2000 *World Economic Outlook* (see *IMF Survey*, October 9, 2000, page 335), looks at the determinants of exchange rate movements among the major currencies, and particularly the strength of the U.S. dollar and the weakness of the euro. The study, Robinson said, offers evidence supporting the idea that movements in the euro-dollar exchange rate have been associated with equity flows from the euro area to the United States and with relative expected growth rates between the two areas. Equity flows do not, however, explain movements in the yen-dollar rate, which appear to be more affected by current account developments and long-term interest rate differentials.

At the World Economic Outlook *briefing are (right to left) Michael Mussa, David Robinson, and Tamim Bayoumi.*

A third study looks at Africa's integration into the global economy, Robinson said. Africa's share of global trade has declined steadily, and the World Bank has calculated that the loss of market share since 1950 has cost about one-fifth of GDP. The study finds evidence that Africa does, indeed, "undertrade" relative to other developing countries and that further trade liberalization—and a "streamlining" of what has become a very complex network of regional trade agreements in Africa—is an important element of the policy agenda. But, Robinson stressed, Africa's trading partners must also play their role by eliminating barriers to African and other developing country exports.

Recent improvements in fiscal balances in advanced countries are discussed in chapter 3. These improvements, Bayoumi explained, rest largely on expenditure restraints rather than on tax increases. This should be seen as a desirable development, Bayoumi observed, since a substantial body of evidence indicates that expenditure restraint can have a longer lasting impact on the fiscal position than tax increases. Nonetheless, the durability of recent improvements has yet to be tested by a slowdown in activity, while in many countries fiscal pressures from aging populations also posed serious challenges.

The last chapter in the *World Economic Outlook*, Bayoumi said, documents the extraordinary improvement in inflation performance in emerging market economies, where average rates have fallen to levels not seen since the 1930s. On a global scale, improvements in inflation in advanced countries have helped, both by providing a more stable anchor for developing countries' monetary policies and by providing improved operating rules for developing countries' monetary regimes, including through inflation targeting. On the domestic side, the move to hard pegs or inflation targeting has supported the anti-inflationary effort, particularly when accompanied by a policy of fiscal consolidation.

The text of the World Economic Outlook is available on the IMF's website (www.imf.org). Printed copies will be available later this month.

Ahluwalia to be director of IMF Evaluation Office

In a press release dated April 23, the IMF announced that Montek Singh Ahluwalia of India has accepted the offer of the IMF's Executive Board and will become the first Director of the IMF's independent Evaluation Office (EVO), effective August 2001.

Ahluwalia is a member of the Indian Planning Commission and of the Economic Advisory Council to the Prime Minister of India. He was Finance Secretary at the Ministry of Finance of India between 1993 and 1998 and has held a range of senior policy positions within the Indian government. A prominent economist who has written and spoken extensively on national and international economic issues, Ahluwalia has also worked at the World Bank.

The Executive Board had agreed on April 10, 2000, that an independent EVO would be established (see Press Release No. 00/27) and that the Director of the EVO would report regularly to the Executive Board on the findings of the unit.

Documents related to the establishment of the EVO are available on the IMF's website (www.imf.org/external/np/eval/index.htm). The full texts of Press Release Nos. 01/13, 01/17, and 00/27 are also available on the IMF's website (www.imf.org).