IMF SURVEY
www.imf.org

International Monetary Fund
VOLUME 28
NUMBER 9

May 10, 1999

Spring meetings

Ministers see declining risk of global recession, endorse steps to strengthen financial system

Meeting on April 27 in an atmosphere of recovering market confidence, the finance ministers and central bank governors of the Interim Committee noted that even though the risks of a global recession had been reduced, the outlook was for continued sluggish world growth in 1999, with a modest recovery in 2000. To address the downside risks to growth and other policy challenges, the Committee called for priority to be given to macroeconomic and structural measures to restore growth in the crisis-afflicted emerging market economies, policies of financial restructuring and domestic-demand-led growth in Japan, and actions to support domestic demand in Europe (see text of communiqué, page 138).

At the meetings (left to right) Renato Ruggiero, Director-General of the World Trade Organization; James Wolfensohn, President of the World Bank; Tarrin Nimmanahaeminda, Chairman of the Development Committee; Carlo Azeglio Ciampi, Chairman of the Interim Committee; and Michel Camdessus, Managing Director of the IMF.

The Committee welcomed the actions that the IMF had taken to strengthen the international financial architecture;

(Please turn to the following page)

Press release

International community considers economic response to Kosovo crisis

Following is a press release issued on April 27. The text of the press release and a joint report by the IMF and the World Bank, The Economic Consequences of the Kosovo Crisis: A Preliminary Assessment of External Financing Needs and the Role of the Fund and the World Bank in the International Response, *are available on the IMF's website (www.imf.org).*

A high-level meeting of governments and international agencies was held in Washington today on the international community's response to the Kosovo crisis and its impact on neighboring countries in the Balkan region. The meeting, convened under the auspices of the World Bank and the IMF, was cochaired by World Bank President James Wolfensohn and IMF Managing Director Michel Camdessus. Representatives of 7 international agencies and 33 countries participated, including representatives of the 6 Balkan countries most immediately affected by the crisis: Albania, the former Yugoslav Republic of Macedonia, Bosnia and Herzegovina, Bulgaria, Croatia, and Romania.

The objectives of the meeting were threefold:

• to review the *short-term response* of the international community to the humanitarian, economic, and financial needs of the six most affected countries, set out in an impact assessment report prepared jointly by the IMF and the World Bank;

• to exchange views on a *medium- to long-term approach* for economic reconstruction and recovery, growth, and progress in reaching social stability in the region once peace is achieved; and (Continued on page 132)

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Interim Committee foresees modest recovery

(Continued from front page) endorsed the IMF Executive Board's establishment of Contingent Credit Lines (CCL) (see page 133); and welcomed the progress made in the area of internationally recognized standards and greater transparency. It called for a new impetus to reduce the debts of low-income countries undertaking strong adjustment measures.

The Committee also supported the measures being taken to enhance IMF assistance to postconflict countries and endorsed the need for a rapid and substantial international response to the economic consequences of the Kosovo crisis.

During the two-week period leading up to the Interim Committee meeting, the IMF made public an unprecedented volume of documents and other information. In most cases, these releases were supported by comprehensive press briefings. Materials released included the staff paper on involving the private sector in forestalling and resolving financial crises (*IMF Survey*, April 26, page 113); the progress report by the Managing Director and the President of the World Bank on the HIPC [Heavily Indebted Poor Country] Initiative; material on the CCL (see page 145); perspectives on the current framework and options for change; three experimental case studies on transparency practices (see page 145); the Managing Director's statement to the board on progress in strengthening the architecture of the international financial system (see page 143); and the preliminary assessment by the staffs of the IMF and the World Bank of the economic consequences of the Kosovo crisis (see page 129). All these papers and the transcripts of associated press briefings are available on the IMF's website (www.imf.org).

Policy actions undertaken by both emerging and industrial countries had helped to improve market confidence.

World Economic Outlook

Speaking at a joint press conference with the Managing Director on April 27 following the release of the Committee's communiqué, Committee Chairman Carlo Azeglio Ciampi, the Italian Treasury Minister, noted that since the last meeting of the Committee in October 1998, the risks of a global recession had declined. He added that policy actions undertaken by both emerging and industrial countries had helped to improve market confidence (see text of joint press conference, page 134).

In its review of the *World Economic Outlook*, the Interim Committee noted the positive signs of a turn toward recovery in the Asian crisis countries; the stabilization of the situation in Brazil, coupled with the fact that spillovers to financial markets elsewhere in the region had been moderate; continued strong growth in the United States and Canada; and improved investor sentiment toward many emerging market economies. Nonetheless, the Committee was of the view that there were still some downside risks. Short-term prospects in Japan remain uncertain, while growth in Europe has fallen below potential. In Russia, despite some recovery, fiscal and debt imbalances remain unsustainable, the Committee said, and vigorous action is needed to tackle the root causes of the crisis in that country.

The Committee endorsed the broad strategy of the international community in dealing with the Asian financial crisis. It found, however, that serious challenges remain ahead and urged the affected countries to persevere with reforms and to lay the basis for sustainable and high-quality growth to resume.

Regarding exchange rate regimes, the Committee noted that desirable arrangements may vary across countries and that any regime must be supported by disciplined policies and robust financial systems. It observed that recent crises have demonstrated that the requirements of maintaining a pegged rate are demanding, particularly in an environment of increased capital mobility. At the same time, it noted that a number of economies with fixed-rate arrangements, including under currency boards, had successfully maintained exchange rate parities. It asked the IMF Executive Board to consider this issue further, including in the context of large-scale official financing.

International financial architecture

Ciampi said the Committee welcomed the *establishment of the CCL* as "an important defense against financial contagion" that would "provide strong incentives for the adoption of stronger policies and the constructive development of the private sector." He added, "We regard this facility as a key component of our crisis-prevention strategy."

The Committee endorsed the IMF's work on measures to facilitate the *avoidance or orderly resolution of crises*. These include such steps as adhering to sound principles of debt management, establishing systems for monitoring private external liabilities, maintaining effective communication with private markets, maintaining adequate foreign exchange liquidity, and supporting proposals that seek to eliminate the current regulatory bias in favor of short-term interbank credit lines.

In welcoming the IMF's progress in developing, disseminating, and monitoring the implementation of *internationally recognized standards*, the Committee endorsed

• the strengthening of the Special Data Dissemination Standard (SDDS), notably by adopting a template for data on international reserves and related liabilities;

• the completion of the manual on fiscal transparency;

• the progress in developing a draft code of good practices on transparency in monetary and financial policies, on which the Committee encouraged the Executive Board to complete its work by the time of the 1999 Annual Meetings; and

• the progress made by bodies other than the IMF in developing other relevant standards in such areas as accounting, banking supervision, bankruptcy, and corporate governance.

The Committee also underscored the importance of *increased transparency* in IMF operations and welcomed the progress that had been made, including

- the greater use of Public Information Notices (PINs) for IMF policy discussions;
- a presumption toward release of Letters of Intent/Memoranda of Economic and Financial Policies and Policy Framework Papers underpinning IMF-supported programs;
- the issuance of a Chairman's statement of the key points of the Board discussion after it has approved or reviewed members' arrangements;
- liberalized access to the IMF's archives; and
- a pilot project for the voluntary release of Article IV reports.

HIPC Initiative and ESAF

The Committee encouraged the Executive Board to develop proposals to strengthen the current framework for debt relief to strengthen incentives for strong programs of adjustment, reform, and good governance. This relief, it noted, "should provide a clear exit from unsustainable debt burdens" and ensure an appropriate burden sharing among creditors.

In light of the increased costs of the proposed modifications to the HIPC Initiative and the financing needs of the interim Enhanced Structural Adjustment Facility (ESAF), the Committee stressed the need "to redouble efforts to secure the full financing of these initiatives." It urged the Board to adopt as soon as possible the decisions needed to ensure that the initiatives are fully funded.

Responding to a question at the joint press conference, the Managing Director said that "this will certainly entail some sales of [IMF] gold." He added that the decision to proceed with sales would be taken soon and that, once it had been taken, the IMF would "proceed in an orderly and prudent way; it is certainly not our intention to proceed in a way that could introduce disorderly developments in the gold market."

Kosovo crisis

In addition to supporting the Board's measures to enhance IMF assistance to postconflict countries in general, the Committee endorsed the need for a rapid, substantial, and coordinated response to the economic consequences of the Kosovo crisis. "Such a response," it said, "is urgently needed to ensure that sufficient aid is provided to alleviate the suffering of the refugees from Kosovo and to ensure that countries in the vicinity of the crisis can have access to external financing to support their efforts toward macroeconomic stability and structural reform."

As a first step in such a coordinated response to the crisis, IMF Managing Director Camdessus and World Bank President James Wolfensohn chaired a meeting, convened by their two institutions on April 27, of representatives of 7 international agencies and 33 countries. The purpose of the meeting was to review the short-term response to the needs of the six most affected countries; exchange views on a medium- to long-term approach for economic reconstruction and recovery; and formulate the next steps to coordinate the international community's response to the economic and social impact of the crisis (see text of press release, page 129).

Development Committee

The meeting of the Interim Committee was followed, on April 28, by that of the joint IMF-World Bank Development Committee, under the chairmanship of Tarrin Nimmanahaeminda, Finance Minister of Thailand. In its communiqué (see page 149), the Committee expressed strong support for the HIPC Initiative and endorsed options designed to enable debt relief under the initiative to be broader, deeper, and faster. Committee members reiterated the importance of ensuring a clear link between debt relief and the goals of sustainable development and poverty reduction and stressed that HIPC programs should fully reflect social concerns by protecting social expenditures.

Stanley Fischer, First Deputy Managing Director of the IMF, speaks with reporters.

Group of Seven

The representatives of the major industrial countries, meeting on April 26 as the Group of Seven, emphasized in the communiqué issued following their meeting their commitment "to a growth strategy based on strengthening domestic demand that contributes to achieving more balanced growth among our countries to reduce external imbalances and to continue to support recovery in emerging market economies" (see text of communiqué, page 146). They reaffirmed their determination to pursue policies to promote sound economic fundamentals and more balanced growth to "help avoid excess volatility and significant misalignments of exchange rates of major economies."

Group of 24

The ministers of the Intergovernmental Group of 24 on International Monetary Affairs, representing the developing countries, also met on April 26 and called for additional policy actions to be taken to deal effectively with adverse trends in the world economy (see text of communiqué, page 152). On the HIPC Initiative, the Group of 24 supported proposals to extend debt relief under the initiative and to relax eligibility criteria. They noted that selling a portion of the IMF's gold holdings would provide only a small portion of the required resources and advocated appropriate burden sharing and alternative financing mechanisms to provide additional relief. ■

Response to Kosovo crisis

Many speakers stressed the need for close coordination of relief efforts and initiatives to alleviate the macroeconomic impacts of the crisis.

(Continued from front page) • to formulate *next steps* for coordination of the international community's response to the economic and social impacts of the crisis.

Short-term response

The meeting was informed by the representative of the United Nations High Commissioner for Refugees of ongoing efforts to provide humanitarian assistance to the more than 600,000 Kosovar refugees in neighboring countries. Concern was also expressed about the hundreds of thousands internally displaced within the Federal Republic of Yugoslavia, including Montenegro and in Kosovo itself. Special recognition was given to the refugee-receiving countries. Many speakers stressed the need for close coordination of relief efforts and initiatives to alleviate the macroeconomic impacts of the crisis. Speakers broadly endorsed the methodology adopted by the joint IMF-World Bank paper to assess the economic, financial, and social costs of the crisis; however, many noted that the projections for financing needs for 1999 were likely to be underestimated and thus would need to be amended to include indirect impacts, such as the effect of the crisis on domestic business activity, unemployment, social conditions, and overall poverty levels. The projections would be revised on an ongoing basis.

No pledges were made or sought at [the] meeting. The meeting took note of the multilateral and bilateral donor support already provided to the affected countries. It welcomed the recent decision taken by the Paris Club to defer all debt-service payments falling due to them by Albania and Macedonia during the year ahead. Participants reflected a broad consensus regarding the guiding principles for donor assistance set out in the joint paper. Five critical dimensions were stressed:

• *Urgency*. A swift donor response is required to help meet the severe humanitarian and other financial needs generated by the crisis.

• *Reform and governance*. Affected countries should do their part by maintaining the momentum of adjustment and structural reform and by ensuring good governance under these difficult conditions.

• *Additionality*. External and budgetary gaps for 1999 need to be filled with quick-disbursing assistance in amounts over and above donors' planned aid programs for affected countries. This will involve an important role for bilateral donors and the international financial institutions.

• *Concessionality*. Financing on sufficiently concessional terms is critical, especially for the poorer countries of the region, if the crisis is not to result in further indebtedness and additional medium-term fiscal pressures.

• *Coordination*. While the crisis is by nature regional, actual aid flows should continue to be mainly channeled on a country-by-country basis; thus, strong donor coordination will be essential to ensure that the regional dimensions of the crisis are adequately addressed.

Medium-term approach

Many speakers addressed the need for a medium-term approach to the Balkan region, focusing on durable peace and economic stability once the current conflict is over. A number of participants noted the importance of planning for refugee return and reconstruction in Kosovo once the conflict is over. Several suggestions for regional coordination were discussed. The meeting broadly endorsed the need for a comprehensive regional framework that would take account of the political and humanitarian as well as economic and social factors—including plans for postconflict reconstruction and recovery—needed to ensure stability in the region in the medium term. In this regard, the meeting called upon the international financial institutions to continue to develop, refine, and update on an ongoing basis their assessments of the economic, financial, and social costs of the conflict and to formulate strategies for dealing with the medium- to long-term economic challenges facing the countries in the region. The World Bank and the European Union were called upon to coordinate needs assessment and modalities for assistance.

Next steps

Country-specific donor meetings, cochaired by the World Bank and the European Union, are being held in the coming weeks to seek pledges to close the funding gaps for individual countries.

There was a widely shared view that the international assistance effort would benefit from high-level political guidance.

It was announced that a Balkan meeting would be held at the end of May in Bonn to further define concrete steps toward, among other things, developing a framework for the medium-term development of the region. ■

Selected IMF rates

Week beginning	SDR interest rate	Rate of remuneration	Rate of charge
April 26	3.24	3.24	3.47
May 3	3.29	3.29	3.74

The SDR interest rate and the rate of remuneration are equal to a weighted average of interest rates on specified short-term domestic obligations in the money markets of the five countries whose currencies constitute the SDR valuation basket (as of January 1, 1999, the U.S. dollar was weighted 41.3 percent; euro (Germany), 19 percent; euro (France), 10.3 percent; Japanese yen, 17 percent; and U.K. pound, 12.4 percent). The rate of remuneration is the rate of return on members' remunerated reserve tranche positions. The rate of charge, a proportion of the SDR interest rate (107 percent; 113.7 percent, effective May 1, 1999) 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 IMF rates, call (202) 623-7171 or check the IMF website (www.imf.org/external/np/tre/sdr/sdr.htm).

Data: IMF Treasurer's Department

IMF tightens defenses against financial contagion by establishing Contingent Credit Lines

The IMF's Executive Board has agreed to provide Contingent Credit Lines (CCL) for member countries with strong economic policies as a precautionary line of defense readily available against future balance of payments problems that might arise from international financial contagion. Following is the text of Press Release No. 99/14, issued April 25.

The CCL is being established for a two-year period and will be reviewed after one year's experience. It is intended to be a new instrument of crisis prevention by creating further incentives for members to adopt strong policies and adhere to internationally accepted standards; by encouraging the constructive involvement of the private sector, thereby reducing the risks of contagion; and by signaling the IMF's willingness to provide its financing to the member should it be struck by contagion.

The CCL provides short-term financing—if the need arises—to help members overcome the exceptional balance of payments financing needs that can arise from a sudden and disruptive loss of market confidence due to contagion—that is, circumstances that are largely beyond the member's control and stem primarily from adverse developments in international capital markets consequent upon developments in other countries. It takes the form of an addition to the IMF's existing decision on the Supplemental Reserve Facility (SRF), established in December 1997. A key difference is that the SRF is for use by members already in the throes of a crisis, whereas the CCL is a preventive measure intended solely for members that are concerned with potential vulnerability to contagion but are not facing a crisis at the time of commitment.

The IMF has ensured the effective use and safeguarding of IMF resources by establishing the following criteria for access to the CCL: at the time of Board approval of a commitment of CCL resources, the member is implementing policies considered unlikely to give rise to a need to use IMF resources and is not already facing contagion-related balance of payments difficulties; the member's economic performance should have been assessed positively by the IMF in the last Article IV consultation and thereafter, including its progress in adhering to relevant internationally accepted standards; it should have constructive relations with private creditors with a view to facilitating appropriate private sector involvement, as well as satisfactory management of its external debt and international reserves; and it should submit a satisfactory economic and financial program, including a quantified framework. When a member requests actual use of CCL resources, a special "activation" review will be conducted—expeditiously—by the Board. At that review, the Board will need to ascertain that the member, having successfully implemented its program to date, is nevertheless severely affected by a crisis stemming from contagion and intends to adjust its policies as needed.

The CCL will not be subject to general access limits, but commitments under the CCL would be expected to be in the range of 300 to 500 percent of the member's quota in the IMF, unless otherwise warranted by exceptional circumstances and with due regard to the IMF's liquidity position.

CCL commitments are to be made for up to one year. At the time of the special "activation" review, the Board would decide on the amount to be released immediately and on the phasing of the balance remaining, and the associated conditionality. Countries drawing under the CCL are expected to repay within one to one and one-half years of the date of each disbursement (the Board may extend this repayment period by up to one year). During the first year following the first drawing of CCL resources, the member will pay a surcharge of 300 basis points above the rate of charge on regular IMF drawings. The surcharge increases by 50 basis points every six months thereafter, up to a maximum of 500 basis points. ■

The text of Press Release 99/14, the Executive Board decision, and the summing up by the Board Chairman are available on the IMF's website (www.imf.org).

Camdessus to ask for IMF Board support for Russian economic program

Following is the text, released as News Brief 99/21, of a statement by IMF Managing Director Michel Camdessus after his meeting on April 28 with Yuri Maslyukov, First Deputy Prime Minister of the Russian Federation and leader of the Russian delegation.

I am pleased that we have agreed with the Russian authorities on an economic program for Russia that I hope to be able to recommend to the Executive Board in support of a new Stand-By Arrangement as a new step in the cooperation between the IMF and Russia. There are still a few technical elements to be settled in the next few days. The program includes many measures in the fiscal, banking, and structural areas that the authorities have undertaken to implement, including through enacting the necessary legislation, as quickly as possible. The authorities have also agreed to provide me with a full explanation of the management of the reserves by the central bank of Russia and the use of disbursements from the IMF over the last few years. As soon as the measures have been implemented and I have received the necessary assurances, I shall ask the Executive Board to consider Russia's request for a Stand-By Arrangement of SDR 3.3 billion over 18 months, of which SDR 2.2 billion would be in the first 12 months.

The CCL...is intended to be a new instrument of crisis prevention.

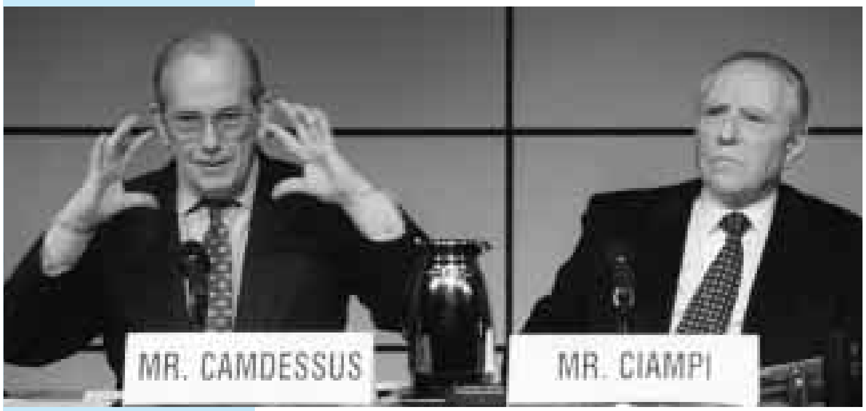
Interim Committee press conference

Ciampi, Camdessus discuss progress on reform issues and HIPC Initiative

Following are edited excerpts from the joint press conference given by Interim Committee Chairman Carlo Azeglio Ciampi and IMF Managing Director Michel Camdessus in Washington on April 27.

CIAMPI: Today's meeting of the Interim Committee has been very productive and the discussion was very lively. I will limit my remarks to some of the important points we discussed.

As for the world economic outlook, the evaluation was that since our October meeting in 1998, the risks of a global recession have declined. Policy actions undertaken by both emerging and industrial countries helped to improve market confidence. The outlook for world output remains sluggish for 1999, in part because of the contractionary impulse from the Brazilian crisis.



IMF Managing Director Camdessus (left) and Interim Committee Chairman Ciampi answer questions at the Interim Committee press conference.

The Committee noted that, first, after the deep output contraction in the Asia-crisis-afflicted economies, activity has turned around in Korea and is bottoming out in the other countries; most of the advanced economies in North America and Europe have proved resilient to the crisis; the situation has stabilized in Brazil since early March; and investor sentiment toward many emerging market economies has improved. Notwithstanding these positive developments, the Committee was unanimously of the view that there are still risks on the downside, and member countries should continue to focus on policies required to sustain growth in the short and medium term.

The second item on our agenda was the strengthening of the international financial architecture. The Committee welcomed the establishment of the Contingent Credit Lines (CCL) in the IMF. The CCL is an important defense against financial contagion. Moreover, it will provide strong incentives for the adoption of stronger policies and the constructive development of the private sector. We regard this facility as a key component of our crisis-prevention strategy. We discussed at length the importance of an early involvement of the private sector in the prevention and resolution of a crisis.

We then discussed the institutional reforms of the Interim Committee itself. We all agreed about the basic principles for further work, and we asked the Interim Committee Deputies and the Executive Board to explore further the scope for institutional changes that may improve the efficiency of the Interim Committee. They will report at the next meeting in October.

On international standards and IMF surveillance, the members welcomed the IMF's progress in developing, disseminating, and monitoring the implementation of internationally recognized standards. I am referring mainly to the code of monetary and financial policies and of progress made on transparency issues.

Turning to the Heavily Indebted Poor Countries (HIPC) Initiative, the Committee agreed to renew efforts to further reduce the debt of low-income countries undertaking strong adjustment programs. We have asked the Executive Board of the IMF, together with the Board of the World Bank, to develop specific proposals to enhance the current framework, which the Committee will examine at the October meeting.

On postconflict assistance, we welcome the Board's decision to identify additional ways to address the exceptional needs of the poor postconflict countries.

The last, but important, item on our agenda was the impact of the Kosovo crisis. The Committee endorsed the need for a rapid, substantial, and coordinated response by the international community to the economic consequences of the Kosovo crisis in order to alleviate human suffering, limit economic disruption, and avoid slippage in the reform process under way in the neighboring countries. These are the main items we have discussed.

CAMDESSUS: I have nothing to add at this stage, except that I am very satisfied to see the change that is going on in the Interim Committee. The Chairman alluded to that at the beginning of his statement. The debates have been much more focused and lively, with many more spontaneous statements. And here we see clearly the impact of Chairman Ciampi. This gives a renewed interest to the debates and certainly will make them even more fruitful in the future.

QUESTION: *Mexican officials were disappointed because this new contingent credit line is going to support only countries that are out of any other traditional IMF line, like the Stand-By Arrangements, because they say that several countries, like Mexico, have been implementing* *very strong economic programs over a long period and now coming under new rules will not be protected by this new line. What is your opinion on that and will the IMF reconsider this point?*

CAMDESSUS: I am a little bit surprised to hear that Mexico could feel abandoned by the IMF or not particularly protected. The IMF is on record and has been enough criticized for having done for Mexico all that was necessary when this country was under tremendous shock. Even at a time when the IMF did not have the Supplemental Reserve Facility, or the CCL, the IMF did its job. We are working with Mexico to see on what basis we could provide support this year and next year for its efforts to consolidate its situation. So far, we have not talked about a CCL for Mexico—CCL did not exist—but we have other instruments perfectly adapted to the situation of Mexico. Provided we agree on what should be the key elements of the reform effort of Mexico in the next few months and years, we will certainly find a way of providing it with the needed support.

QUESTION: *Are all countries invited to apply for the CCL?*

CAMDESSUS: The CCL is for all countries that have their macroeconomic policies, debt management, relationship with the banks, and adherence to the new standards being created in order. This facility is there to encourage the entire membership to adapt itself to the new world and to invite all countries to address their own vulnerabilities, adhere to their standards, and establish a mature and constructive relationship with the banking community. When a country, having performed all this, sees the need to add a public line of defense to the line of defense it has organized with private creditors, then we will be there to negotiate such an arrangement with it. Nobody is excluded. Everybody is invited to develop excellence in their macroeconomic and financial policies and then be eligible for this facility.

QUESTION: *Do you agree with Robert Rubin's statement that now is the time to start considering a change in IMF constituencies to give more voice to emerging markets and, implicitly, presumably to reduce the overrepresentation of Europe?*

CAMDESSUS: We are at this moment launching a major study, for which we have mobilized world experts, to see if the formulas on which our quotas are calculated are still the best possible ones in view of the evolution of the world economy. This study had been decided when we agreed in Hong Kong SAR on our last quota increase. This study will then be seen by the Executive Board, and if the Executive Board agrees with its results, then, when we have a new occasion to augment our quota—or possibly before, but I do not see that as probable—the countries' quotas will be calculated according to the new formulas. We will then see what are the changes in the ranking of countries. Then, on the basis of that, we will see if there are objective reasons for changing the composition of the Executive Board. The Executive Board has changed many times in the past. It is normal for it to follow as precisely as possible the evolution of the membership. We will proceed according to the quota distribution; this will require time, patience, and a very high spirit of consensus in the membership.

CIAMPI: I want to add that the formula of the constituency is valid and important.

CAMDESSUS: A point I have made very strongly.

The CCL is for all countries that have their macroeconomic policies, debt management, relationship with the banks, and adherence to the new standards being created in order.
–Camdessus

QUESTION: *With regard to the HIPC Initiative and ESAF, the communiqué reads "It also urged the Executive Board to adopt as soon as possible the decisions needed to ensure that the initiatives—meaning ESAF and HIPC—are fully funded." Does that include the sale of gold? If so, what are the amounts being talked about? Also, when do you hope to reach a decision about the sale of IMF gold?*

CAMDESSUS: This will certainly entail some sales of gold. The Interim Committee meeting today has been particularly important, as we heard that there is now practically a unanimous consensus in the Committee for accepting that, inasmuch as bilateral contributions do not cover the entire cost for the IMF of the HIPC Initiative, we should proceed—as we said in 1996—with the "optimization of our reserve management," which was code at that time for mentioning gold sales.

On the amount of gold sales, initially we were considering the sale of 5 million ounces. Higher numbers have been suggested by a few members of the Interim Committee. We will have to see what are the exact needs and where the consensus lies among the members of the Committee. When will this sale start? The decision will certainly be taken soon, because I have perceived from the members of the Interim Committee the wish to reach very soon a finalization of the financial arrangements for funding HIPC. After that, after the decision, as you can imagine, we will proceed in an orderly and prudent way; it is certainly not our intention to proceed in such a way that could introduce disorderly developments in the gold market. During the 1970s, we sold three times or more the amount we are considering today. We did it in a smooth and transparent way at that time. We intend to proceed similarly this time.

QUESTION: *I get the impression that the discussion on the internal structure of the Interim Committee and the proposed changes in the Committee has been the most lively, because your press releases were the shortest on that issue. Is it a fair summary of these statements to say that basically all the Europeans were running against what they perceive as a U.S. dominance of the proceedings and deci-*

sion making of the IMF, and that basically Rubin said nyet?

Ciampi: It was a very interesting, lively discussion, and we agreed on following a pragmatic approach. This was a common view. The idea is to let the Interim Committee operate in a more efficient way according to the present situation and to look at possible institutional changes only to get more efficiency. Of course, now, we have to go more deeply into this problem, and it is up to the Executive Board and to meetings of the deputies to develop further proposals for the next meeting in September. But our aim is not to change for the sake of changing; it is to change to get more efficiency in our institutions.

Question: *With regard to the issue of involving the private sector in resolving crises, how much disagreement was there on whether a case-by-case approach should be adopted versus a more formulaic approach? Also, did anyone speak up for the poor bondholders, who were so exercised about the prospects that their rights as creditors might be abridged?*

Ciampi: This subject was discussed mainly in the meetings of the Executive Board when preparing the new contingency instrument. Involving the private sector was seen as being one of the best ways of reducing the risk of contagion. The press release on the Contingent Credit Lines is also very clear on this point.

Ciampi speaks with reporters after the press conference.

Camdessus: I am afraid that the characterization of two groups of members of the Interim Committee—one for ex ante regulation, and the other for a case-by-case approach—suggests a greater dichotomy than exists. On certain issues you have this difference of underlying philosophy, corresponding, of course, to something deeper—the different legal cultures of the members of the Interim Committee. But there are very few issues on which the debate is so sharply contrasted. What prevails during all these discussions is a high degree of pragmatism and an effort by all to find the best way to achieve mature relationships between banks and their clients—constructive relationships, establishing a continuous dialogue between them, and contributing to a more permanent flow of information, not limiting the dialogue only to the moment you grant the loan. On that, everybody agrees.

When there are, from time to time, disagreements is when we consider the need for changing the instruments. Should we or should we not change the bond contracts, for instance? Or when, with the view of having in extreme situations an orderly workout of difficult situations, one considers whether it would be a good idea to give the IMF the ability to declare a stay on payments to allow for some time—not too long—during which a consensual solution could be found, avoiding during this period a flurry of litigation that could lead to very undesirable solutions and would harm for a long time the creditworthiness of the country involved.

You talk about the poor bondholders. We have not discussed the point in detail. My distinct feeling is that the sanctity of the contracts has been repeated in several statements, including the communiqué—but there is not excessive compassion for bondholders who have received a very high risk premium of 500, 600, 700 basis points and then would like to escape the obligation to participate in a concerted solution of the crisis because they have a paper that is entitled bond instead of being credit.

On that issue, there is among the membership a very strong desire to treat everybody in an evenhanded fashion, to do everything to help the countries, and to create incentives for the countries to pay their creditors as well as possible and to accept for that the needed adjustments. But if in the short term there is a need for a reorganization of the debt, everybody considers that it is just and fair to have all the creditors participate, except when they have a particularly privileged status.

Question: *Mr. Camdessus has pointed out that all 182 IMF members can be eligible for the CCL. However, the governor of Mexico's central bank, Guillermo Ortiz, commented that there was unnecessary rigidity on the part of the IMF's Executive Board. Mexico was not eligible, and he said he would ask the Board to review the case, because it is a question of the quota, in terms of the liquidity, rather than the contingency, in terms of our resources. I would like you to comment on this point, please.*

Camdessus: I am not surprised that the president of the central bank calls the rules of the IMF somewhat rigid. These rules apply to all, and must be clear. I do not see rigidity, but the existence of rules that apply to all as being very necessary. Mexico will benefit from the existence of this facility in at least two ways: first, because I have no doubt that your country and, in particular, your monetary authorities, will see the considerable interest in adopting the behavior, the approach, of the rules for debt management, in abiding by the codes of good conduct and considering the methods of rehabilitating the financial system that this facility suggests and makes necessary. So, even though Mexico may not be able immediately to benefit from the contingency credit line, it would benefit from the fact that the policies that it generates will be good for it. Second, it would benefit from the fact that all Mexico's neighboring countries, the other emerging countries, will hopefully enter into similar approaches and policies to adapt in the international context. These will make these crises and threats that might harm Mexico from the outside less frequent. Mexicans, thus, will be able to applaud this new facility and these rules, and will be able to count on the IMF to apply them with all objectivity.

QUESTION: *U.S. Treasury Secretary Robert Rubin mentioned the reflationary pressure on Japan and the importance of taking necessary monetary policy. Could you comment on that point, and is that almost the consensus in the Interim Committee?*

CAMDESSUS: The communiqué has language regarding the concerns of the Interim Committee in view of the remaining weakness in Japan and the uncertainty prevailing on the prospects for an early recovery. The language in the communiqué recognizes the important policy initiatives in Japan aimed at stimulating domestic demand, easing financial sector strains, but stressing also the importance of Japan implementing the stimulus measures it has taken, using all available tools. This language has been unanimously supported, including of course by the Japanese delegation. This is what the Japanese government wants to do, and it enjoys the support of the entire international community for that. ■

Involving the private sector was seen as being one of the best ways of reducing the risk of contagion.
–Ciampi

Spring meetings 1999: information available on the IMF's website (www.imf.org)

Event (Date)	Released Material
Press briefing on involving the private sector (April 15)	• Involving the Private Sector in Forestalling and Resolving Financial Crises, including Executive Board summing up and IMF staff paper • Transcript of press briefing
Public Information Notice on transparency (April 16)	• PIN 99/36: IMF Takes Additional Steps to Enhance Transparency
Press briefing on HIPC (April 23)	• HIPC Initiative: Perspectives on the Current Framework and Options for Change, with Supplement on Costing • Transcript of press briefing
Managing Director/Mr. Ciampi press conference on the CCL (April 25)	• Press Release 99/14: IMF Tightens Defenses Against Financial Contagion by Establishing Contingent Credit Lines, including Decision and Executive Board summing up
Press briefing on standards and transparency (April 26)	• Experimental Case Studies on Transparency Practices, including Argentina: Experimental Report on Transparency Practices; United Kingdom: Experimental Report on Transparency Practices; Australia: Staff Involvement in the Preparation of a Pilot Transparency Report; Progress Report: Developing International Standards • News Brief 99/18: IMF Releases Experimental Case Studies on Transparency Practices (4/22/99) • Transcript of press briefing
Interim Committee Meeting (April 27)	• Managing Director's Statement to the Executive Board and Report of the Managing Director to the Interim Committee on Progress in Strengthening the Architecture of the International Financial System • Interim Committee communiqué • Transcript of joint press conference • Fact Sheet, Guide to Progress in Strengthening the Architecture of the International Financial System
Balkans Committee meeting (April 27)	• Note on the international community's response to the Kosovo crisis
IMF-World Bank press conference (April 28)	• The Economic Consequences of the Kosovo Crisis: a Preliminary Assessment of External Financing Needs and the Role of the Fund and the World Bank in the International Response • Transcript of press conference
Monetary and Exchange Affairs Department press conference (April 28)	• Consultative Draft—Code of Good Practices on Transparency in Monetary and Financial Policies: Declaration of Principles • A note and request for comments on Transparency in Monetary and Financial Policies • Transcript of press conference

Interim Committee communiqué

Ministers agree on key aspects of strengthened international financial architecture

The Committee endorsed the broad strategy adopted, and noted the lessons learned, by the international community in dealing with the Asian financial crisis.

Following is the text of the communiqué issued after the April 27 meeting of the Interim Committee of the Board of Governors of the IMF. The text of the communiqué is also available on the IMF's website (www.imf.org).

The Interim Committee held its fifty-second meeting in Washington on April 27, 1999, under the chairmanship of Carlo Azeglio Ciampi, Minister of the Treasury of Italy.

Developments in the world economy

The Committee was encouraged by a number of policy actions and developments since its October 1998 meeting that have helped to improve market confidence and reduce the risks of a global recession. Nonetheless, the outlook is for world output growth to remain sluggish in 1999, while a moderate recovery is foreseen for 2000. Serious challenges remain that will take some time to resolve.

Among the positive developments, the Committee noted:

• Activity in most of the Asian crisis economies seems to be turning toward recovery. Continued progress with structural reforms will help to restore and maintain economic dynamism in the longer run.

• In Brazil, the situation has stabilized since early March. Spillovers to financial markets elsewhere in the region have generally been moderate, reflecting in part the past decade's efforts to strengthen fiscal positions and to build sound financial systems.

• The U.S. and Canadian economies have continued to grow remarkably strongly, while inflation has remained subdued.

• Investor sentiment toward emerging markets has broadly improved since the beginning of the year. In mature financial markets, sentiment has improved markedly since last October, as concerns about the risk of a liquidity shortage have subsided.

Notwithstanding these positive developments, there have also been some concerns. The crisis in Brazil, although it has abated since early March, has imparted a contractionary impulse to other Latin American countries and to the world economy. In Japan, despite some improvement, short-term prospects remain uncertain, and growth in much of Europe has further slowed below potential. In Russia, economic activity has been recovering from the low point in September, monthly inflation has decreased, but the fiscal and debt imbalances remain unsustainable. Commodity-exporting countries—many of which have incurred steep losses in export revenues since the start of the Asian crisis—face significant adjustment challenges.

The Committee considered the policies that would be required to address the downside risks to growth and other policy challenges—in particular, the continuing uneven pattern of growth among the United States, the euro area, and Japan, which has contributed to a marked widening of global trade imbalances. Priority should be given to an appropriate mix of macroeconomic and structural measures aimed at generating early, vigorous, and sustained recoveries in the crisis-afflicted emerging market countries; to policies of financial restructuring and domestic-demand-led growth in Japan; and to policies for supporting domestic demand in Europe. In this connection, the Committee recognized the important policy initiatives in Japan aimed at stimulating domestic demand and easing financial sector strains, but stressed the importance of Japan implementing stimulus measures until growth is restored, using all available tools. The Committee welcomed the recent interest rate reduction by the European Central Bank. The Committee emphasized the importance of open and competitive markets as a key component of efforts to sustain growth and stability in the global economy. It encouraged further trade liberalization, including market access for developing country exports, and looked forward to the launch of a new round of trade negotiations at the World Trade Organization (WTO) in November with a balanced agenda that addresses the concerns of all WTO member countries.

The Committee welcomed the start of European Economic and Monetary Union, which should contribute to financial stability and sustainable growth in the euro area and globally. Members of the euro area need to attack the root causes of high unemployment. An appropriate policy mix to support stronger domestic demand, accompanied by structural reforms in labor, capital, and product markets, is essential to enhancing growth and employment prospects, especially in the medium term, in order for the euro area to be a major source of growth in the world economy.

Policy response in recent crises

The Committee endorsed the broad strategy adopted, and noted the lessons learned, by the international community in dealing with the Asian financial crisis. It pointed to the progress made by Korea, Indonesia, the Philippines, and Thailand under IMF-supported programs, which had been responsive to evolving circumstances—including through the strengthening of social safety nets—and had benefited from the support of the international community. While noting that the worst of the crisis was over, the Committee stressed that serious challenges remain ahead and thus urged the countries affected to persevere with the needed reforms and so lay the basis for a resumption of sustainable and high-quality growth.

Drawing lessons from the crisis, the Committee emphasized, in particular, the need to address in a timely way the sources of economic vulnerabilities, such as inappropriate policy mixes, leading in particular to significant exchange rate misalignments; excessive debt accumulation; imprudent debt-management policies; financial sector fragility, particularly in a situation of weak financial supervision and regulation; limitations in information available to markets; weaknesses in corporate structures; inappropriate sequencing of capital account liberalization; and deficient risk management by creditors. It also emphasized the critical importance of strong national ownership of programs.

On Brazil, where public sector imbalances have been at the root of the crisis, the Committee expressed support for the authorities' revised economic program and emphasized the importance of its full implementation as well as the continued support of the private financial community for Brazil.

In reviewing prospects for Russia, the Committee stressed that, despite recent improvements, vigorous action is needed to tackle the root causes of the crisis, especially persistent fiscal imbalances, structural rigidities, and financial sector weaknesses.

Regarding exchange rate regimes, the Committee noted that desirable arrangements may vary across countries and that any regime must be supported by disciplined policies and robust financial systems. Recent crises have demonstrated that the policy requirements of maintaining a pegged rate are demanding, in particular, in an environment of increased mobility of international capital. However, at the same time, the Committee observed that a number of economies with fixed exchange rate arrangements, including under currency boards, had been successful in maintaining exchange rate parities. It requested the Executive Board to consider further the issue of appropriate exchange rate arrangements, including in the context of large-scale official financing.

Building upon the useful review by the Executive Board of IMF-supported programs in the Asian financial crisis, the Committee requested the Executive Board to discuss ways to further improve IMF surveillance and programs so that they better reflect the changes in the world economy, in particular, potentially abrupt large-scale cross-border capital movements.

Strengthening the architecture of the international monetary system

The Committee noted that broad agreement had been reached on key aspects of a strengthened architecture and welcomed the actions by the IMF in a number of important areas. Nevertheless, it remains to develop some issues further and to implement several of the proposals that have been put forward. The international financial system needs to be strengthened to reduce the risks posed by weaknesses in policy and by the volatility of capital flows and also to facilitate access to capital markets by the many countries that have not yet benefited from globalization. With that in mind, the Committee considered several of the interrelated elements of the reform agenda and called on the private sector, and national authorities, as well as the IMF and other institutions and forums to carry forward this work in the months ahead. The Committee requested the Executive Board to consider further the systemic aspects of prevention. It recognized the central importance of IMF surveillance in carrying forward this reform agenda.

Forestalling and resolving financial crises. The Committee emphasized that prevention of crises remains the key. It endorsed the Executive Board's decision to establish contingent credit lines in the IMF. This new instrument is an important component of the ongoing effort to strengthen the architecture of the international monetary system. The new contingent credit lines will help countries pursuing sound and sustainable policies to maintain stability, even in the face of deteriorating global financial conditions. This facility will provide an important instrument of crisis prevention, by creating further incentives for countries to adopt strong policies, notably debt management and sustainable exchange rate policies; to adhere to internationally accepted standards; and to involve the private sector in a constructive manner—thereby containing the risks of financial market contagion, while taking into account the potential impact on the IMF's liquidity.

Armínio Fraga, Governor of the central bank of Brazil (left), discusses issues with Edward A. J. George, Governor of the Bank of England, before the Interim Committee meeting.

Further work is needed on crisis prevention, in particular, in conjunction with the private sector: improved risk assessment and its reflection in pricing; better data, including on private sector capital flows; strengthened monitoring of capital flows, in particular, short-term flows; more information about countries' policies and the IMF's assessment of these policies; adherence to internationally recognized standards; stronger financial systems; and improved regulatory oversight of highly leveraged institutions, including hedge funds, and of offshore banking centers.

The Committee endorsed the IMF's intention to intensify its work with member governments to put in place as soon as possible mechanisms that could facilitate the avoidance or orderly resolution of crises:

• adhere to sound principles of debt management, avoid excessive accumulation of short-term debt, and, more generally, maintain an appropriate structure of liabilities;

The Committee encouraged the IMF to continue its work on the appropriate pace and sequencing of capital account opening.

• establish systems for high-frequency monitoring of private external liabilities;

• maintain effective communication with private capital markets;

• maintain adequate foreign exchange liquidity, including by considering the establishment of contingent credit lines, call options, or similar arrangements with private creditors;

• support proposals that seek to eliminate the present regulatory bias in favor of short-term interbank credit lines; and

• identify other arrangements that could better assure continuing private financing in times of potential stress.

The Committee also noted that, in future international bond issues, sovereigns should consider the inclusion of provisions that would facilitate orderly resolution of debt crises. The Committee invited the Board and other relevant forums to explore appropriate ways to introduce collective action clauses in sovereign bond issues.

The Committee also encouraged further consideration of the appropriate response in cases of severe liquidity crises and stressed the importance of seeking appropriate involvement of the private sector in a cooperative way. The Committee reaffirmed the general principle that borrowers should honor their debts. It noted the IMF's preparedness, under appropriate conditions and in extreme situations, to lend in the presence of arrears to private creditors, thus allowing the IMF to promote effective balance of payments adjustment during possibly protracted negotiations with creditors. The Committee asked the Executive Board to continue its work on all these issues and to report to the Interim Committee, including on ways to assure more orderly debt workouts.

Institutional reform and strengthening and/or transforming the Interim Committee. The Committee agreed that the IMF should remain at the center of the international monetary system, while improving in a pragmatic manner the modus operandi of its institutional components and cooperation with other institutions and forums.

The Committee asked its deputies and the Executive Board to explore further the scope for institutional improvements, including of the Interim Committee, and to report at the next meeting of the Interim Committee.

Capital movements. The Committee encouraged the IMF to continue its work on the appropriate pace and sequencing of capital account opening and, in particular, to further refine its analysis of the experience of countries with the use of capital controls and to explore further issues related to the IMF's role in an orderly and well-supported approach to capital account liberalization.

The Committee reiterated the importance of timely and comprehensive data on capital flows for effective IMF surveillance of this area. It welcomed the agreement to improve data on short-term liabilities of the official sector in the context of strengthening the Special Data Dissemination Standard (SDDS) as an important first step and the arrangements to facilitate access to creditor-side external debt data prepared by the IMF, the World Bank, the Bank for International Settlements, and the Organization for Economic Cooperation and Development. The Committee urged moving forward expeditiously with the efforts under way to improve data on capital flows.

International standards and IMF surveillance. The Committee welcomed the IMF's progress in developing, disseminating, and monitoring the implementation of internationally recognized standards, given the contribution that the observance of standards will make to strengthening the international financial system. In particular, the Committee welcomed

• the strengthening of the SDDS, notably by adopting a comprehensive template for the dissemination of data on international reserves and related liabilities. The Committee strongly encouraged members that have not subscribed to do so. It also called for increased efforts at participation in the General Data Dissemination System. The Committee called on all subscribers to the SDDS to begin disseminating data according to the reserves template and encouraged completion of the work on transition plans for external debt data and indicators of financial sector soundness.

• the completion of the manual on fiscal transparency to assist members in implementing the Code of Good Practices on Fiscal Transparency. The Committee encouraged all members to work toward improving fiscal transparency in line with the code.

• the progress achieved in developing a draft code of good practices on transparency in monetary and financial policies and the broad collaborative effort to this end by the IMF and other international agencies and bodies. The Committee encouraged the Board to complete its work on the development of the code as soon as possible, and not later than the Annual Meetings, and to proceed promptly in preparing, in cooperation with appropriate institutions, a supporting document to the code.

The Committee also took note of the progress made in developing other standards relevant for the functioning of the international financial system (accounting, auditing, banking supervision, bankruptcy, corporate governance, insurance and securities market regulations, payment systems, and so on). It encouraged standard-setting bodies and organizations to continue their efforts to develop comprehensive standards. The Committee welcomed the IMF's work in the area of insolvency laws. It called on the IMF to continue its collaboration with the World Bank, the United Nations Commission on International Trade

Law, and other relevant institutions in promoting effective insolvency systems. While noting their voluntary nature, the Committee also encouraged countries to adopt the new standards as they are being developed.

In the context of IMF surveillance, the Committee encouraged the IMF to develop the process to encompass the standards and codes relevant to international financial stability. It welcomed the IMF's use of experimental case studies in the preparation of transparency reports and the planned financial system stability assessments, in order to better identify and address the practical issues that need to be considered. The Committee encouraged the broadening of the experiment to a large group of countries and to take stock of these experiences to improve work in this field and also encouraged the IMF to use transparency reports on a trial basis as a part of its surveillance.

Transparency: recent progress and perspectives. The Committee underscored the importance of greatly increased transparency—of national government policies, of private sector reporting, and of international financial institutions, including the IMF. It welcomed the progress that had been made by the IMF in furthering transparency in members' economic policies and its own operations, including

- greater use of Public Information Notices (PINs) for IMF policy discussions;
- a presumption toward release of Letters of Intent/Memoranda of Economic and Financial Policies and Policy Framework Papers underpinning IMF-supported programs;
- the issuance of a Chairman's statement capturing the key points of the Executive Board discussion following Board approval or review of members' arrangements;
- the liberalization of access to the IMF's archives; and
- a pilot project for voluntary public release of Article IV staff reports.

Recent Publications

Books

Sequencing Financial Sector Reforms: Country Experiences and Issues, edited by R. Barry Johnston and V. Sundararajan ($27.50)

Working Papers ($7.00)

99/33: *Determinants of Ex-Ante Banking System Distress: A Macro-Micro Empirical Exploration of Some Recent Episodes*, Brenda Gonzáles-Hermosillo

99/34: *Institutions, Innovations, and Growth*, Haizhou Huang and Chenggang Xu

99/35: *Macroeconomic Fluctuations in Developing Countries: Some Stylized Facts*, Pierre-Richard Agénor, C. John McDermott, and Eswar S. Prasad

99/36: *Explaining the Behavior of Financial Intermediation: Evidence from Transition Economies*, Philipp Rother

99/37: *The Long-Run Relationship Between Real Exchange Rates and Real Interest Rate Differentials: A Panel Study*, Ronald MacDonald and Jun Nagayasu

99/38: *East Asia in the Aftermath: Was There a Crunch?* Swati R. Ghosh and Atish R. Ghosh

99/39: *A Model of the Lender of Last Resort*, Charles A.E. Goodhart and Haizhou Huang

99/40: *Real Exchange Rate Behavior and Economic Growth: Evidence from Egypt, Jordan, Morocco, and Tunisia*, Ilker Domaç and Ghiath Shabsigh

99/41: *Is Poland Ready for Inflation Targeting?* Peter F. Christoffersen and Robert F. Wescott

99/42: *Does Monetary Policy Stabilize the Exchange Rate Following a Currency Crisis?* Ilan Goldfajn and Poonam Gupta

99/43: *Unemployment, Capital-Labor Substitution, and Economic Growth*, Robert Rowthorn

99/44: *Nonrenewable Resources: A Case for Persistent Fiscal Surpluses*, Max Alier and Martin Kaufman

99/45: *Japan's Stagnant Nineties: A Vector Autoregression Perspective*, Ramana Ramaswamy and Christel Rendu

99/46: *Political Instability and Economic Vulnerability*, Matthieu Bussière and Christian Mulder

99/47: *Exchange Rate Pass-Through and Dynamic Oligopoly: An Empirical Investigation*, Dominique M. Gross and Nicolas Schmitt

IMF Staff Country Reports ($15.00)

99/11: Norway—Selected Issues
99/12: Gabon—Statistical Annex
99/13: Swaziland—Statistical Appendix
99/14: Canada—Selected Issues
99/15: Chile—Selected Issues
99/16: Belgium—Statistical Appendix
99/17: Madagascar—Statistical Annex
99/18: Nepal—Recent Economic Developments
99/19: Brunei Darussalam—Recent Economic Developments
99/20: Mali—Selected Issues and Statistical Appendix
99/21: Mauritania—Recent Economic Developments
99/22: Pakistan—Statistical Appendix
99/23: Republic of Slovenia—Statistical Appendix
99/24: Tanzania—Recent Economic Developments
99/25: Angola—Statistical Annex
99/26: Bulgaria—Recent Economic Developments and Statistical Appendix

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The Committee requested the Executive Board to continue work on furthering transparency and urged more countries to participate in the pilot project to ensure its success. The Committee underscored that efforts on transparency should not undermine the role of the IMF as confidential advisor to members. It reaffirmed the importance of strengthening the IMF's contribution to transparency by more public information on, and evaluations of, the IMF's operations and policies.

Hans Eichel, Germany's Federal Minister of Finance (left), meets with Andrew Crockett, General Manager of the Bank for International Settlements.

HIPC Initiative and ESAF

The Committee noted that the time had come to give new impetus to efforts to further reduce the debt of low-income countries undertaking strong adjustment programs. The Committee welcomed the further review of the HIPC (Heavily Indebted Poor Countries) Initiative and encouraged the Executive Board of the IMF—together with the Board of the World Bank—to develop more specific proposals to strengthen the current framework so as to enhance debt relief to countries in need in a way that strengthens incentives for the adoption of strong programs of adjustment, reform, and good governance. This relief should provide a clear exit from unsustainable debt burdens. In this context, the Committee recognized the need for appropriate burden sharing among creditors. The Committee looked forward to a report at its next meeting on ways to enhance the link between HIPC Initiative assistance and poverty reduction.

In light of the increased costs associated with the proposed modifications to the HIPC Initiative, and since contributions remain significantly below the financing needs of the interim ESAF [Enhanced Structural Adjustment Facility] and HIPC Initiative, the Committee stressed the need to redouble efforts to secure the full financing of these initiatives. It also urged the Executive Board to adopt as soon as possible the decisions needed to ensure that the initiatives are fully funded. The Committee welcomed the substantial progress that has been made in securing additional loan resources for the current ESAF. Members were encouraged to come forward as soon as possible with the resources required to support ESAF operations until the start of the interim ESAF in 2001.

IMF assistance to postconflict countries

The Committee welcomed the measures agreed by the Executive Board to enhance IMF assistance to postconflict countries, including improving the terms of emergency postconflict assistance and providing higher access over a longer period in appropriate circumstances. It also welcomed the Executive Board's preparedness to consider, for those postconflict countries with arrears to the IMF, on a case-by-case basis, relaxing the requirement for payments to the IMF as a test of cooperation, provided the member is cooperating on policies and that other multilateral institutions take at least comparable action. The Committee noted that the debt burden of the heavily indebted poor postconflict countries would eventually need to be addressed under the HIPC Initiative. The Committee asked the Executive Board to consider further steps in cooperation with the World Bank.

Regional economic impact of Kosovo crisis

The Committee endorsed the need for a rapid, substantial, and coordinated response by the international community to the economic consequences of the Kosovo crisis. Such a response is urgently needed to ensure that sufficient aid is provided to alleviate the suffering of the refugees from Kosovo and to ensure that countries in the vicinity of the crisis have access to external financing to support their efforts toward macroeconomic stability and structural reform. The Committee stressed that it would be highly regrettable if the considerable progress being made by the affected countries in reforming their economies was set back because of a lack of external financing, on appropriate terms, to meet these increased needs. It emphasized that all humanitarian relief costs should be financed by external aid and grants. Other external financing needs arising as a direct consequence of the crisis should be met from both bilateral and multilateral sources. The international financial institutions should play an important role in this effort. External financing of balance of payments and budget costs in affected countries that are ESAF-eligible should also be provided on highly concessional terms, and the Committee looked forward to the ongoing discussions of the affected countries' external debt positions in the framework of the Paris Club. The Committee asked the IMF and the Bank staffs to continue their work in coordinating the international response to the economic impact of the crisis in close cooperation with other interested agencies and donors.

Quotas, NAB, and Fourth Amendment of the Articles

The Committee welcomed the coming into effect of the New Arrangements to Borrow (NAB) and the increase in quotas approved under the Eleventh General Review, which will provide the IMF with the financial resources that will enable it to carry out its mandate at the center of the international monetary system. The Committee noted the relatively slow progress in members' acceptance of the Fourth Amendment of the Articles, allowing for the special onetime allocation of SDRs. The Committee called on members that have not done so to complete the necessary procedures promptly.

The next meeting of the Interim Committee will be held in Washington on September 26, 1999. ■

IMF SURVEY

Camdessus reports on progress in strengthening international financial architecture

Following is the text of IMF Managing Director Michel Camdessus's statement to the IMF Executive Board on April 16. The full text is also available on the IMF's website (www.imf.org).

My report contains a comprehensive survey of the progress in strengthening the international financial system. I would like to suggest some priorities for the period ahead. Some can be implemented by the Board, some by national authorities, and some by the broader international community.

Substantial progress has been made in containing and resolving the crises that unfolded over the past two years; also, the international community, acting in a variety of forums, has forged a consensus on the important lessons from this experience. On a number of issues, those lessons have led to action:

• In the areas of *transparency, standards, and IMF surveillance*, much has already been accomplished. The Special Data Dissemination Standard (SDDS) has been strengthened, the Code of Good Practices on Fiscal Transparency has been adopted, and other codes and standards substantially agreed, while information about the IMF and countries' policies has been greatly expanded.

• On *financial sector strengthening*, the process of IMF-Bank collaboration has been enhanced, the Basle Core Principles are being used actively to assess banking systems, and numerous recommendations for better supervision have been made.

• On *private sector involvement in forestalling and resolving crises*, much experience has been gained in effectively involving the private sector in a number of country cases and in better identifying the sources of risk in country exposure and the key aspects of preventive and ex ante measures to be followed up. IMF surveillance is being strengthened in these areas both globally and in the context of individual country activities.

On other issues, general conclusions have been drawn but remain to be translated into specific reforms. It also remains to ensure that a problem we were wrestling with before this crisis—namely, the successful integration of a larger number of developing countries into the global financial system—be pursued with vigor. This will require successful application of the lessons from the crisis as well as action to improve the policy performance of these countries and to remove, where needed, the overhang of debt that impedes better integration and inhibits growth.

In determining the priorities for follow-up action, I suggest that we have in mind

• the need to involve the private sector more effectively and more imaginatively in efforts to forestall and resolve financial crises and in initiatives to increase transparency and promulgate the use of internationally accepted standards;

• the need to maintain the momentum of initiatives in the areas of standard setting and monitoring, including the role of IMF surveillance in fostering this process;

• the opportunities presented by new arrangements in international cooperation—including the Financial Stability Forum—to catalyze proposals that have been endorsed, but not acted upon, and to better define and deal with the gaps remaining in the system;

• the need to consider further some of the systemic implications of the recent crises, such as the appropriate exchange rate arrangements;

• the imperative of correcting unstable and unsustainable debt structures of the poorer countries, including through further strengthening the HIPC [Heavily Indebted Poor Countries] Initiative and funding the ESAF [Enhanced Structural Adjustment Facility];

• the need to adapt the global institutions to the new challenges posed by globalization. This includes the need to revisit the governing structure of the IMF to ensure a comprehensive approach to the problems we face and strong support and a closer involvement of national authorities.

I would propose that attention during the upcoming meetings and over the months ahead be concentrated on the following actions.

Camdessus: On a number of issues, lessons have led to action.

Transparency, standards, and IMF surveillance

• National authorities should indicate their willingness to participate in the pilot program for release of Article IV staff reports.

• Countries should move toward observing the voluntary standards developed in the IMF's core areas: existing subscribers need to adhere to the initial SDDS as soon as possible and to implement the strengthened standard on reserves; and countries should implement the Code of Good Practices on Fiscal Transparency, and, once finalized, adopt the code of good practices on transparency in monetary and financial policies.

• The Executive Board should consider, in the context of further pilot studies, whether the IMF should produce transparency reports and, in that context, address the optimum combination of self-assessment and IMF assessment; the monitoring of standards beyond the IMF's core areas; and the ways in which to bring other standard-setting bodies or other institutions, including the World Bank, into the process.

• National authorities and international institutions should encourage the development, adoption, and implementation of relevant internationally recognized standards applied at the level of the private sector (for example, standards on accounting, auditing, and corporate governance) as well as the promotion and implementation of others, including core labor standards.

Strengthening financial systems

• The IMF and the Bank should press ahead with joint financial sector assessments.

• National authorities should intensify their assessments of financial systems, helped by the IMF and others, and align national practices with international principles, including with the Basle Core Principles.

• Examine, in the appropriate forums, possible sources of vulnerability that might arise from the insurance sector and from the activities of offshore centers, as well as highly leveraged institutions.

• Develop proposals for the disclosure of private sector information, building on the output of various working groups based in Basle.

Capital account issues

• The membership needs to adopt the appropriate amendment of the Articles of the IMF to promote liberalization of capital movements.

• Differences of view remain on the use and effectiveness of capital controls in different circumstances. In light of the Interim Committee's discussion, the Executive Board should move to draw conclusions, based on further country cases, on the use and effectiveness of specific controls and on the best way for the IMF to assist countries in their efforts to liberalize capital movements, as well as on the possible gradual acceptance of liberalization obligations.

Involving the private sector in forestalling and resolving crises

• Introduce new clauses in international bond contracts. While there is a general consensus on their desirability, what is needed now is that workable models be adopted by the relevant international bodies and by national authorities and be implemented.

• Revise the Basle capital standards by reducing the bias toward short-term interbank lending.

• Intensify national authorities' efforts at crisis prevention, including through maintaining an appropriate debt structure. Establish or strengthen high-frequency monitoring systems and intensify surveillance over debt structures and financial derivatives, with IMF assistance.

• Explore possibilities for private contingent credit lines or other instruments to provide additional liquidity or reduce debt-service burdens in periods of severe payments difficulties.

• Explore possibilities for establishing effective communication between private capital markets and the international financial institutions, as well as between borrowing countries and creditors.

• Explore further the processes that could assist with orderly workouts, including a possible role of Article VIII Section 2(*b*).

Systemic issues

• The Executive Board should continue to examine the implications of recent crises for the appropriate exchange rate regimes for both industrial and developing countries.

• The Executive Board should finalize the modalities of an IMF-financed contingent credit line.

• We all need to work to secure full financing for the ESAF and the IMF's participation in the HIPC Initiative. ■

IMF and African Development Bank to establish Joint Africa Institute

In Washington on April 25, the IMF and the African Development Bank (AfDB) signed a Memorandum of Understanding to establish a Joint Africa Institute, in which the World Bank will also be a partner. The memorandum was signed by the World Bank and the AfDB on April 26. Following is the text of News Brief 99/19, dated April 25.

The Joint Africa Institute, located at AfDB's headquarters in Abidjan, Côte d'Ivoire, is being established to provide training in economic policy and management to government officials and other participants from Africa. The Joint Africa Institute is part of the IMF's new strategy to increase training opportunities for member country officials in their own countries or regions. By creating regional institutes worldwide, the IMF is seeking to establish long-term training partnerships with its member countries.

The courses to be offered by the Joint Africa Institute will focus on macroeconomic management and policies and on structural, social, and project-related issues, such as governance, poverty alleviation, gender, growth, and the environment. The Joint Africa Institute will also organize seminars on topical development issues, using the most modern distance learning facilities as an integral part of its training activities. The Joint Africa Institute will be operational later this year.

IMF Managing Director Michel Camdessus welcomed the establishment of the Joint Africa Institute: "The new institute will make an important contribution to meeting the critical training needs of Africa. It will contribute to building up the institutional capacity of national governments to better manage their economies and to take upon themselves the further training of their economic and financial managers," he said.

IMF SURVEY

Boorman discusses IMF's transparency initiatives, explains rationale for Contingent Credit Lines

"What we are seeing...is architecture in action," said Jack Boorman, Director of the IMF's Policy Development and Review Department. Speaking at an April 26 press conference, Boorman described steps the IMF had taken recently on issues of financial architecture—the IMF's and member countries' relations with the private sector, transparency of their operations and policies, and data and policy standards that countries should meet. He explained that these steps were part of the IMF's ongoing efforts to strengthen the international financial system to prevent crises similar to the ones that had struck various economies around the globe in the 1990s. Two weeks earlier, the IMF had released a staff study that addressed the first of these issues—specifically, how to involve the private sector in preventing and resolving financial crises (see *IMF Survey*, April 26, page 113).

Transparency and standards

In his opening statement, Boorman outlined a series of measures recently adopted by the IMF Executive Board to enhance the transparency of both IMF operations and members' economic policies.

- The IMF would continue to release Public Information Notices reflecting the Executive Board's discussion in concluding an Article IV consultation, a practice begun in May 1997.
- It would encourage members to participate in a pilot project to voluntarily release the staff reports that serve as background to the Article IV consultation discussions in the Board.
- Countries that agree to make their staff reports available to the public could release a statement in response to the Board discussion.
- Countries would be expected to release to the public documents related to their use of IMF resources.
- The Board would continue to release a second category of Public Information Notices—those covering policy issues (see *IMF Survey*, April 5, page 107).

The IMF has been asked to prepare transparency reports for member countries, a task that goes well beyond the work of the IMF, but is consistent with the institution's responsibilities, Boorman said. To evaluate transparency, he suggested that it would be necessary to assess how well countries meet different standards, including the IMF's Special Data Dissemination Standard, the Code of Good Practices on Fiscal Transparency, a code being developed on monetary and financial policies, and the Core Principles on Banking Supervision developed by the Basle Committee on Banking Supervision. Other possible standards that could be assessed are accounting standards, auditing standards, corporate governance, and bankruptcy. The institution's work to date, and different approaches adopted, appears in a staff report released at this press briefing—*Experimental Case Studies on Transparency Practices*, which contains case studies for Argentina, Australia, and the United Kingdom—as well as a progress report on developing international standards (both documents are available on the IMF's website—www.imf.org).

Boorman: The IMF now has a better understanding of contagion.

Preparation of transparency reports is still in the experimental stage, Boorman said, as evidenced by differences in the approach and degree of coverage of the three case studies. The Australian exercise, for example, was initiated by the authorities on the basis of a self-assessment. It is quite comprehensive, covering the extent of the country's adherence to a wide range of standards. In contrast, the exercises for Argentina and the United Kingdom were prepared by the IMF staff on the basis of information provided by the authorities.

The IMF is inviting public comment on the structure and content of the reports and on their value to market participants. One problem with the process is that many of the existing standards are set by institutions that are not involved in monitoring and assessing them. Thus, Boorman noted, "we are going to have to work with the standard-setting bodies themselves...to be able to see how best to proceed in this area."

New way of operating

In Boorman's words, all these different elements of architecture come together, in some sense, in the Contingent Credit Lines (CCL), approved by the IMF on April 25 (see page 133). The CCL, he noted, represents a fundamental change in the way the IMF operates.

All these different elements of architecture come together in the CCL.
–Boorman

In the wake of the global financial crises, the IMF revived an idea that it first discussed in 1994—that of making a short-term line of credit available to member countries. The initial discussion, Boorman explained, was derailed by an inability to answer the various questions that had to be addressed before such a facility could be created. Recent events had made it possible to answer those questions. "We have seen the crises and we have seen contagion," Boorman said. "We understand it better; we understand the threat of it better." He emphasized that there was a desire to protect member countries from contagion, "which hits them not because of actions or policies of their own doing, but because of pressure that develops in capital markets in other countries or because of developments in other parts of the world."

Eligibility criteria

To be eligible to use the Contingent Credit Lines, a member must meet certain criteria, Boorman explained. First, it must demonstrate that it is implementing solid policies and that it is not already facing balance of payments difficulties spawned by contagion. Second, it must have received a positive assessment of its economic performance in its last Article IV consultation and thereafter and must demonstrate good progress in adhering to relevant internationally accepted standards. Third, it should have constructive relations with private creditors. Finally, it should submit to the IMF a satisfactory economic and financial program.

In response to a question, Boorman observed that the message sent by the CCL is that the IMF is willing to do business differently than it has in the past. It does not want countries to wait until they experience difficulties before they request IMF assistance. At the same time, he noted, it is "a facility for countries that will not otherwise be using IMF resources," in the sense that they do not have an immediate balance of payments problem.

"In the best of all possible worlds," he explained, "what we would hope is that the very existence of the facility, the commitment from the IMF and what it represents, would convince the private markets to continue to cooperate with a country; if that were the result, the country would not have to use these resources." The IMF's approval of a CCL for a member country would be a signal to markets of the strength the IMF sees in that country's policies. ■

Group of Seven

Finance ministers and central bank governors review developments, discuss architecture issues

Gathering at Meridian House in Washington are Group of Seven finance ministers (left to right) Paul Martin (Canada), Kiichi Miyazawa (Japan), Carlo Azeglio Ciampi (Italy), Robert Rubin (United States), Gordon Brown (United Kingdom), Hans Eichel (Germany), and Dominique Strauss-Kahn (France).

Following is the text of the statement of the Group of Seven finance ministers and central bank governors, issued in Washington on April 26.

We, the finance ministers and central bank governors of the Group of Seven countries, and the president of the European Central Bank met today with the Managing Director of the IMF to review recent developments in the world economy. Ministers and governors also discussed international financial architecture issues.

Developments in the world economy

We discussed developments in our own economies and in the rest of the world. In recent months, there have been improvements in some areas, reflecting both signs of better performance in some emerging market economies and the policy response in Group of Seven countries to the shift in the risks that we called attention to last year. A number of serious challenges remain, however, that will take time to resolve.

Open and competitive international trade markets continue to be an important underpinning for world growth, prosperity, and stability. We remain committed to achieving further trade liberalization and market transparency through the launch of a new round of multilateral trade negotiations in November that is responsive to the concerns of citizens throughout the world.

Group of Seven economies

We remain committed to a growth strategy based on strengthening domestic demand that contributes to achieving more balanced growth among our countries to reduce external imbalances and continues to support recovery in emerging market economies. The favorable outlook for continued price stability in our countries remains.

In view of the challenges facing each of our economies, we pledge ourselves to continued efforts to work cooperatively to strengthen conditions for financial stability and to improve the economic outlook.

- The United States and Canada have continued to enjoy strong growth and job creation, and prospects are favorable for another year of strong economic activity. In these countries, policies should be directed to sustaining growth over the long term.
- In the United Kingdom, growth and inflation pressures weakened over the course of 1998. Interest rates have continued to fall. Growth is forecast to be lower this year than last, before strengthening into 2000. Under these conditions, economic policies should continue to aim at fostering noninflationary growth, supported by continued adherence to the symmetric inflation target.
- In the euro area, growth prospects have weakened, although to a differing extent across countries. We

agreed on the importance of pursuing an appropriate mix of macroeconomic policies and structural measures aimed at strengthening prospects for improved growth and higher employment over the medium term.

• Japan has taken important steps in response to its economic difficulties. Despite some improvement, short-term prospects remain uncertain. It is therefore essential that Japan implement stimulus measures until growth is restored, using all available tools to support strong domestic-demand-led growth. It is also recognized that structural measures to enhance the economy's efficiency and competitiveness in both financial and nonfinancial sectors, including by encouraging banks to dispose more actively of nonperforming assets, are crucial at this stage.

International monetary system and exchange rates

We reaffirmed that we will maintain strong cooperation to promote stability of the international monetary system and exchange rates among major currencies that are in line with fundamentals.

We discussed developments in our exchange and financial markets since our last meeting. We reaffirmed our view on the importance of pursuing policies to promote sound economic fundamentals and more balanced growth among key economies and thereby help avoid excess volatility and significant misalignments of exchange rates of major economies. We will continue to monitor developments in exchange markets and cooperate as appropriate.

Emerging market countries

We discussed financial and economic developments in emerging markets. We welcome the return of more stable conditions and early signs of economic growth in many Asian nations. We support the shift in macroeconomic focus toward fostering economic recovery while fully implementing reforms in the financial and corporate sectors to promote a resumption of strong sustainable growth. In other regions, notably Latin America, the outlook for growth has deteriorated since last fall, while the external financing environment, though improved in some countries, still presents some difficulties. It is crucial for the countries in the region to pursue appropriate policies, including institutional, structural, macroeconomic, and exchange rate policies, such as by reinforcing existing economic programs, as the best way to respond to financial market pressure.

Brazil

We welcomed the commitment of the Brazilian authorities to a strengthened economic program, including measures to control inflation and a strong program of fiscal adjustment. Recent developments relating to inflation, the exchange rate, and international capital flows offer grounds for encouragement. It is essential that Brazil persevere with the implementation of its adjustment program in order to ensure that the positive momentum continues and to promote investor confidence. We also urge the Brazilian authorities to pay due attention to social needs. We reaffirm our commitment to bilateral and multilateral support for a strong reform program and to the importance of a strong involvement of private sector creditors in restoring financial stability in Brazil.

Russia

We met with representatives of the Russian Federation to discuss recent developments in Russia. We remain concerned about the country's ongoing financial and macroeconomic instability. Russia's return to macroeconomic stability and growth is possible only in the context of a viable fiscal program, significant improvement in government revenues, and progress in institutional and structural reforms. We welcomed the progress Russia has made in its dialogue with the IMF, and we urge the Russian authorities to take all necessary steps to reach agreement on, and effectively implement, a credible economic program. We reiterated that such an IMF agreement is a precondition for Paris Club consideration of any rescheduling of Russia's debt.

Debt of the poorest

We agreed on the need to further implement and develop the Heavily Indebted Poor Country (HIPC) Initiative to provide enhanced debt relief, so as to promote the objective of supporting permanent exit from unsustainable debt and to support poverty alleviation. We reviewed the proposals made by a number of Group of Seven partners to improve the HIPC Initiative, with a view to reaching a consensus by the time of the Cologne summit in June. We agreed that creditors should make greater efforts to reward reform. We also recognized the need for appropriate burden sharing among creditors. We urged all bilateral creditors to make future official development assistance primarily in the form of grants to HIPCs to ensure they do not face new debt problems in the future. We reaffirmed the call at Birmingham [May 15–17, 1998; see *IMF Survey*, May 25, 1998, page 157] for all eligible countries to embark on the process as soon as possible, and to take steps to ensure that all can be in the process by the year 2000.

Strengthening the international financial and monetary system

We reviewed the ongoing work on strengthening the international financial architecture as we work toward agreement on further specific proposals that we will present to the Group of Seven heads of state or government for their consideration at the Cologne summit in June. Since we last met in February, there has been significant progress in a number of areas, including agreement on the IMF's Contingent Credit Lines, measures to promote greater

We reaffirmed our view on the importance of pursuing policies to promote sound economic fundamentals and more balanced growth among key economies.

transparency, codes and standards of best practice, and the establishment of the Financial Stability Forum.

We will continue to work to ensure implementation of all the reforms that we agreed in our declaration of October 30, 1998 [see *IMF Survey*, November 16, 1998, page 360]. Our work between now and the Cologne summit will continue to focus on the scope for strengthened prudential regulation and supervision in industrial countries; further strengthening financial systems in emerging market economies; sustainable exchange rate regimes in emerging market economies; crisis prevention and response through, when appropriate, the use of the IMF's new Contingent Credit Lines and greater participation by the private sector in crisis containment and resolution; proposals for ways to improve the IMF programs and procedures in crisis prevention and resolution, and appropriate institutional reforms, including of the Interim and Development Committees; and minimizing the human cost of, as well as improving the social policy response to, financial crisis.

Year 2000 problem

We agreed that governments, central banks, regulatory bodies, and private sectors need to continue to press forward with renovating and testing their computer systems in preparation for the year 2000. Moreover, with the century date change now less than one year away, efforts should also be directed toward planning for any contingencies that may arise. The public and private sectors are also encouraged to disclose the status of their preparations for the year 2000. The ministers and governors requested that each Group of Seven country prepare a short statement for the economic summit in June, reporting on the status of renovation, testing, and contingency arrangements of its critical sectors.

Anticorruption

We noted with satisfaction the increased attention being given in key international organizations to governance and corruption issues. We agree that corruption is a serious impediment to effective macroeconomic policy and economic development and growth. We will strengthen our efforts both through our domestic policies and through the international financial institutions, the Organization for Economic Cooperation and Development (OECD), the World Customs Organization, and the World Trade Organization to combat corruption, including the financial channels of bribery, and improve governance.

Financial crime

We remain concerned about the threat that money laundering and financial crime more broadly pose to the integrity and stability of global financial systems and markets. We will ensure that our financial crime experts stay abreast of and coordinate our ongoing efforts to fight these problems. In particular, we commend the efforts of the Financial Action Task Force (FATF) to broaden adherence to the FATF 40 Recommendations, and we urge it to identify countries or territories, including offshore financial centers as appropriate, that fail to cooperate in the fight against money laundering and take action as necessary to remedy these obstacles.

Harmful tax competition and international tax evasion

We welcome the establishment of the OECD's forum on harmful tax competition and the actual start of implementing the guidelines and recommendations adopted by the OECD with respect to the harmful effects of unfair tax practices. We strongly endorse the current work program of the forum, in particular, the efforts to identify tax havens. We also support the forum's intention to engage in a dialogue with jurisdictions identified through this process. We urge that this work be given a high priority. We also note the ongoing work to implement the code of conduct within the European Union.

We welcome the progress made by the OECD's Fiscal Committee and the FATF to explore further the links between tax evasion and avoidance and money laundering and, in particular, to ensure the effective flow of information to tax authorities without undermining the effectiveness of anti-money-laundering systems. We encourage each group to continue working on its respective responsibilities.

We urge the OECD to continue to address the barriers limiting effective exchange of information between tax authorities, in particular, those that arise from excessive bank secrecy rules.

Countries affected by the Kosovo crisis

The brutal violence against the ethnic Albanians of Kosovo and their expulsion have caused an enormous human tragedy, an overwhelming flow of refugees, and serious economic consequences for the neighboring countries. Bilateral and multilateral donors are responding to the humanitarian crisis. The international community must also help the affected countries address the damage done to their economies and sustain the economic reform efforts that are vital to their long-term economic prospects. The international financial institutions (the IMF, the World Bank, and the European Bank for Reconstruction and Development) will play a critical role in this effort. We call upon the international financial institutions to develop a comprehensive assessment of the economic and financial effects of the conflict, to formulate strategies for dealing with both the immediate and longer-term economic challenges facing the countries in this region, and to participate actively in the common effort to help these countries as they address these challenges. ■

Group of 10 communiqué

Ministers consider role of private sector in crisis prevention and resolution

Following is the communiqué of the Group of 10 industrial countries, issued in Washington on April 27. The full text is also available on the IMF's website (www.imf.org).

The finance ministers and central bank governors of the countries of the Group of 10 met in Washington on April 27. The meeting was chaired by Kaspar Villiger, the Minister of Finance from Switzerland, on behalf of Bosse Ringholm, the newly appointed Minister of Finance from Sweden and current Chairman of the Ministers and Governors. Ministers and governors took note of reports from Henk Brouwer, Chairman of the Deputies of the Group of 10; Michel Camdessus, Managing Director of the IMF; Lawrence Summers, Chairman of Working Party 3 of the Organization for Economic Cooperation and Development; and Andrew Crockett, General Manager of the Bank for International Settlements.

Ministers and governors discussed the prevention and management of international financial crises. They noted that the changes in the magnitude and nature of private capital flows to emerging markets over the past decade have greatly increased the importance of the private sector in the prevention, containment, and resolution of international financial crises. They welcomed the positive response of investors and creditors to recent improvements in policies and performance of some of the emerging market economies most affected by recent turmoil. Ministers and governors agreed on the principle that debtors should honor their obligations and contracts. In this context, they discussed a number of ways for strengthening private sector involvement, including, for example, broadening and deepening relations between creditors and debtors; encouraging the inclusion of rollover options in debt contracts, the arrangement of contingent lines of credit, and other forms of market-based insurance, which might be used in conjunction with official financing; and modifying the terms of bond contracts to facilitate cooperative refinancing or restructuring negotiations during crises.

Ministers and governors considered the issues raised by complementing private finance and multilateral liquidity support during severe financial crises with financing from bilateral official sources. They noted that it would remain up to individual governments to decide in each case whether to provide such bilateral support. They underscored that bilateral official liquidity support should generally be provided only in exceptional circumstances that pose systemic risks and only in connection with a credible adjustment program supported by the international financial institutions. If bilateral official support were found to be necessary, the funds should be disbursed expeditiously and all bilateral official creditors should be treated equitably. ■

Development Committee communiqué

Ministers endorse review of debt-relief initiative, call for strengthened social policies and institutions

Following is the communiqué of the Development Committee, released on April 28 in Washington. The full text is also available on the IMF's website (www.imf.org).

The fifty-ninth meeting of the Development Committee was held in Washington on April 28, 1999, under the chairmanship of Tarrin Nimmanahaeminda, Minister of Finance of Thailand.

Debt Initiative for Heavily Indebted Poor Countries (HIPC)

Encouraged by the progress made over the last two and a half years, ministers expressed their continued strong support for the initiative and reaffirmed its overarching objective of poverty reduction. They discussed ways to strengthen the initiative and welcomed the results of the extensive external consultation process in this regard. The Committee endorsed the current review and examination of options designed to enable HIPC Initiative debt relief to be broader, deeper, and faster. Ministers reiterated the importance of ensuring a clear link between debt relief and the goals of sustainable development and poverty reduction and looked forward to the results of ongoing consultations in this area. From the outset, the underlying reform programs should have an integral pro-poor growth focus. Programs for HIPC should fully reflect social concerns by protecting social expenditures.

Ministers endorsed a set of principles that should be used in considering changes to the current HIPC

Chairman of the Development Committee Tarrin Nimmanahaeminda (right) with World Bank President James Wolfensohn.

framework. These guiding principles include recommendations that debt relief should reinforce the wider tools of the international community to promote sustainable development and poverty reduction; strengthen the incentives for debtor countries to adopt and implement economic and social reform programs; provide a clear exit from an unsustainable debt burden—taking into account external vulnerabilities of each eligible country; and be consistent with the need to preserve the financial integrity of the international financial institutions. Moreover, any changes should simplify implementation of the initiative.

Ministers took note of the updated and higher cost estimates of the current framework, the alternative costs of potential enhancements to the initiative, and the importance of early debt-service reduction. They emphasized that the review of options for change should continue to be based on cost estimates provided by the Bank and the IMF that take into account those countries likely to qualify for relief and an estimate of total resources required, as well as the likely time period of expenditures. The review would need to be matched by a broad-based effort to find appropriate and equitable financing solutions. In particular, there is a need for increased bilateral contributions—with fair burden sharing—to the HIPC Trust Fund to help those multilateral creditors unable to meet additional costs from their own resources. In addition, ministers stressed the need to secure financing for the IMF ESAF-HIPC Trust. While acknowledging the financial constraints facing multilateral creditors, ministers encouraged them to examine further the funding they can provide for the HIPC Initiative. Ministers requested that changes to the HIPC Initiative framework and financing plans be presented for their consideration at the Committee's next meeting, including specific proposals for multilateral institutions to provide cash-flow relief between the decision and completion points.

Fathallah Oualalou, Moroccan Minister of Economy and Finance (left); Omar Kabbaj, President of the African Development Bank; and Huguette Labelle, President, Canadian International Development Agency.

Ministers also welcomed the proposals from bilateral creditors to consider enhanced debt relief, including more relief of the eligible HIPCs' official development assistance debts. The Committee supported a better coordinated effort to ensure that new financing to HIPCs be in the form of grants or on highly concessional terms. Ministers urged an intensification of efforts on both the aid and trade fronts, emphasizing that HIPC Initiative debt relief alone would be insufficient to reach the overarching international development goal of halving the proportion of people living in absolute poverty by 2015.

Assistance to postconflict countries

Ministers noted the progress achieved by the Bank and the IMF in enhancing their capacity to assist postconflict countries. They welcomed the recent agreement by the IMF Executive Board to enhance postconflict emergency financial assistance and to take into account, on a case-by-case basis, the special circumstances of postconflict countries with arrears to the IMF. The Committee also welcomed the Bank's progress in designing financial instruments aimed at providing positive net transfers to postconflict countries implementing policies conducive to stabilization, growth, and poverty reduction. Ministers stressed the need, where relevant, to link such efforts to preparing countries for participation in the HIPC Initiative. They encouraged the two institutions to continue to work together and with UN agencies, bilateral partners, and other institutions to strengthen their assistance to postconflict countries and to implement enhanced assistance in individual countries as soon as possible, in the context of appropriate macroeconomic and structural policies. They stressed that these initiatives would need to complement strengthened efforts by the international community to assist in the early and orderly transition from conflict to stabilization and economic growth. They emphasized the need for demonstrated commitment to lasting peace by the previously conflicting parties to enable donors and creditors to provide exceptional support.

Bank Group financial capacity

The Committee welcomed the successful conclusion of the IDA-12 [International Development Association] replenishment agreement and the MIGA [Multilateral Investment Guarantee Agency] general capital increase, which will provide essential resources for two key parts of the World Bank Group. Ministers also welcomed the attention being devoted by the Bank's Executive Board and management to the financial strength of the IBRD [International Bank for Reconstruction and Development] and IFC [International Finance Corporation]. Ministers reaffirmed their strong commitment to preserve the IBRD and IFC's financial integrity. They recognized that the institutions must respect appropriate financial limits in the conduct of their operations. Ministers accordingly asked that the Executive Board review IBRD and IFC priorities, particularly in light of recent global economic and financial developments, and report back to the Committee at its next meeting with balanced options for maintaining and supporting the institutions' financial capacity to help them meet the future development needs of borrowing member countries.

Comprehensive development framework

The Committee welcomed the holistic approach to sustainable development envisaged in the CDF [comprehensive development framework]. Ministers appreciated that the CDF emphasizes the ultimate importance of country ownership of decision making as well as partnership and coordination between government, civil society, the private sector, and other multilateral and bilateral actors in pursuit of poverty reduction—the Bank's central goal. They underscored the importance, within the CDF, of each partner sharpening its focus. They noted that many governments had expressed interest in working as partners with the Bank in helping to develop the CDF. Ministers recognized that the ultimate test of the CDF would be in its implementation, and they called on the Executive Board to monitor and evaluate progress in the pilot country cases as they evolve over the next 18 months.

Multilateral development bank cooperation

Ministers welcomed the president's report on strengthened World Bank cooperation with regional development banks, an important set of development partners. They underscored the importance of continuing to strengthen cooperation between the World Bank, regional development banks, and the IMF. Ministers believe such enhanced collaboration, while respecting each institution's unique mandate, can improve lending efficiency and effectiveness; they urged further concrete steps be taken by the multilateral development banks as, for example, in developing comparable methods for evaluating development effectiveness and in establishing best-practice multilateral development bank procurement rules.

Principles and good practice in social policy

Ministers noted the important contributions of the Bank and the IMF in current efforts to strengthen the architecture of the international financial system through their participation in the formulation of international standards, principles, and best practices. Reflecting on the lessons of the recent financial crisis, ministers reiterated the importance of concerted action to help countries bolster their social policies and institutions. They considered a draft note on principles and good practice in social policy, prepared at the Committee's request by the World Bank in cooperation with the United Nations and others. Ministers agreed that further development of these basic social principles was best pursued within the framework of the United Nations, as part of the international community's follow-up on the Copenhagen Declaration of the World Summit for Social Development. Ministers encouraged the Bank to help countries mobilize the necessary domestic and external resources to implement these principles and to share best practice on the effective use of such resources. Ministers emphasized the importance of the Bank concentrating on strengthening its support for member countries in translating broad principles into practical country-specific results, based on the Bank's extensive operational role in promoting broad-based poverty-reducing development—experience of best practice, that should be an important part of the Bank's contribution to the United Nations discussion of principles. They emphasized the importance and urgency of work by the Bank and the IMF to help countries be better prepared for crisis situations and to ensure that when crisis strikes, the most vulnerable groups are protected and the process of longer-term development is sustained; ministers asked the World Bank to report back to the Committee at the Annual Meetings on associated policies and practices that could support national and international implementation of these objectives.

N'Goran Niamien, Côte d'Ivoire's Minister of Economy and Finance (left), and World Bank Executive Director Bassary Touré.

Strengthening international forums

Ministers discussed a number of options for strengthening the Development and Interim Committees. They recognized the importance of reaching agreement as soon as possible and asked the two Executive Boards to develop proposals for consideration by the Committees at their next meetings.

Balkan crisis

Ministers were informed of the results of the special high-level meeting of governments and international agencies held on April 27. Convened by the World Bank and the IMF, the meeting focused on the economic impact of the Kosovo crisis on neighboring countries in the Balkan region. The Committee welcomed the attention being paid to the region's short-term financial needs, as well as a medium-term approach to economic stability in these countries. They emphasized that conflict and postconflict situations elsewhere also required a high level of attention by the international community. Ministers welcomed the request that the World Bank and the European Union coordinate these efforts for the Balkan crisis. Ministers looked forward to being informed of follow-up actions in due course.

The Committee's next meeting is scheduled for September 27, 1999, in Washington, D.C. ■

Group of 24 communiqué

Developing country ministers call for comprehensive reforms of international monetary system

Following is the text of the communiqué issued after the meeting of the ministers of the Intergovernmental Group of 24 on International Monetary Affairs in Washington on April 26. The full text is also available on the IMF's website (www.imf.org).

World economy and international monetary system

The world economic outlook remains uncertain. Current projections indicate a continuation of weak economic growth, a slowdown in trade volume expansion, depressed primary commodity prices, and declining capital inflows to developing countries. It is essential that additional policy actions be taken now in a preemptive manner to deal effectively with these adverse trends in the world economy.

Chairman of the Group of 24 Deputies, A.S. Jayawardena (left), consults with the Chairman of Group of 24, G.L. Peiris.

Ministers welcome the broad-based easing of monetary conditions in the industrial countries, in particular, the recent reduction of interest rates by the European Central Bank. They appreciate the determined efforts of the Japanese authorities to turn around the negative trends in the economy and welcome the fiscal stimulus introduced recently. They observe, however, a constellation of forces at work that does not appear to yield to traditional instruments of macroeconomic policy. Ministers are convinced that, in addition to well-coordinated macropolicy actions, comprehensive structural reforms—mainly in the financial and corporate sectors and labor markets—are crucial to the achievement of sustainable economic growth.

Ministers express concern about the pressure in some industrial countries for resort to protectionism through various devices. They underscore the necessity of resisting such tendencies and emphasize the advantages of a further opening up of markets for the exports of developing countries.

While welcoming the successful launching of the euro at the beginning of the year, ministers reiterate the critical need for greater exchange rate stability among the major international currencies in order to create a conducive external environment in which developing countries could continue with their economic liberalization measures and structural reforms, thereby enabling these countries to maximize the benefits of globalization.

While there are indications of incipient recovery in some parts of the developing world, contractionary tendencies remain dominant as a result of the sharp decline in primary commodity prices and massive reversals of private capital flows. Ministers pointed out that access to private capital markets is hindered even for emerging market economies with sound economic fundamentals, and the cost of borrowing has been on the high side. They added that excessive reliance on short-term, volatile capital flows as sources of financing should be avoided.

Ministers note that some of the policies initially adopted for managing the crises of recent years may have inadvertently contributed to adverse effects through restrictive fiscal measures and high interest rates, which have discouraged investment and retarded the process of recovery. They welcome the subsequent flexibility shown by the IMF in taking into account the circumstances of individual countries and unforeseen developments. In this context, ministers underline the need to keep adjustment measures and mechanisms under constant review, with a view to ensuring flexibility in policy recommendations to promote growth prospects.

Strengthening architecture of the international financial system

Ministers underscore the necessity of comprehensive reforms of the international monetary and financial systems, geared to prevent costly economic crises and to manage them effectively when they occur. They are of the view that improvements in the system should be built around the existing international institutions and emphasize the need for developing countries to have an equitable representation in this process. In this regard, ministers reiterate their call for the establishment of a task force with participation from industrial countries and representatives from a wide range of developing countries to engage in an in-depth examination of issues related to the reform of the international monetary and financial system.

Ministers welcome the role played by the IMF as crisis manager and encourage it to continue with its efforts for strengthening the architecture of the system. They appreciate the actions of the IMF, in concert with the World Bank and the regional development banks, to serve as lenders in crisis situations.

Ministers welcome the establishment of the Contingent Credit Lines (CCL) as a follow-up to the Supplemental Reserve Facility (SRF) to protect countries with sound fundamentals from the potential risks of financial contagion. They expect the eligibility criteria for access to the CCL to be administered in a manner that will provide incentives and equal opportunities for member countries. It is also desirable to avoid preconditions of parallel arrangements for private contingency financing, which would make it too costly to resort to the CCL. Ministers believe that the economic difficulties that facilities such as the SRF and the CCL seek to address have their roots in systemic weaknesses of a global character and that their effective solutions will also have to be global. In this context, proposals for developing a global lender of last resort deserve further study and discussion.

Ministers are aware that any idea of the foregoing nature will raise issues of moral hazard. While recognizing the complexity of "bailing-in" measures, including the need to make them as voluntary as possible, ministers welcome the many avenues being explored to involve the private sector in both forestalling and resolving financial crises. Among those that contribute to forestalling crises are private contingency lines of credit and intensified debtor/creditor consultations and amending sovereign bond clauses by incorporating sharing and minimum majority clauses, in which the industrial countries should take the lead. Among those that could both forestall and resolve crises are the possibility of the IMF lending into arrears and amending Article VIII, Section 2(*b*) [of the Articles of Agreement] to allow the IMF to sanction a temporary stay on creditor litigation in extreme situations in order to facilitate orderly debt restructuring.

Ministers are convinced that integration into the global financial market remains a fundamental objective of the developing world. They believe, however, that the benefits of such integration can only be obtained in full measure if both the volatility and instability of short-term capital flows manifested in recent financial crises are contained. They consider that the pace and content of liberalization should be aligned with the ongoing process of strengthening the prudential supervisory regulations as they apply to financial institutions and to their corporate customers, especially the more highly leveraged ones, within both capital-receiving and capital-source countries. While this infrastructure is being developed, it is necessary to leave open the possibility of applying selective market-based controls on capital movements of a potentially disruptive character. Ministers underline that the process of capital account liberalization should be properly sequenced and that the pace of liberalization should take full account of individual country circumstances. In this context, they visualize the IMF's role as a facilitator of liberalization, keeping in mind the exchange regime and balance of payments implications of progress toward the opening of capital accounts and paying due attention to the creation of more orderly conditions in international capital markets. In addition, ministers underline the importance of appropriate technical assistance to help countries strengthen their financial systems.

Ministers welcome the progress made on issues of transparency, but they emphasize the importance of concentrating on areas related to the core activities of the IMF. They reiterate their concern that publication of IMF staff surveillance reports is likely to compromise the quality and candor of discussions with member countries, thereby undermining the effectiveness of the IMF's surveillance function. This issue is especially pertinent in the case of a number of countries for which the publication of documents might lead to disproportionately large effects, because—notwithstanding countries' own publications—the IMF staff analysis might be the most visible external assessment of their policies. Ministers emphasize the need for enhancing transparency in the working of private financial entities, especially the highly leveraged institutions.


Jin Liqun, Vice Minister of Finance, China (left); Javad Yarjani, OPEC; and Dr. Hamad Al-Bazai, Deputy Finance Minister, Saudi Arabia.

Ministers recognize that the development and implementation of internationally recognized standards are critical to the proper accountability of international financial institutions. However, they emphasize the need for a symmetrical application of transparency criteria between public institutions and the private sector. Ministers also note that countries at different stages of development will necessarily proceed at different speeds and will require extensive technical assistance in the process of applying these norms, the implementation of which should be voluntary and not undermine the development of their financial sectors.

Ministers welcome the efforts to strengthen the decision-making processes of the Bretton Woods institutions. Strengthening the existing instruments of international cooperation appears to be the best way of proceeding, instead of experimenting with new institutional modalities. This would include strengthening the working procedures for the Interim and Development Committees—without undermining the role of the Executive Boards—in order to enhance their effectiveness. In view of the unique relationship of the IMF and the Bank, they consider it appropriate to give the President of the Bank the right to participate in the Interim Committee deliberations.

Development financing

Ministers welcome the growing consensus on the need to restructure the HIPC Initiative. They support the recent proposals for improving the depth and breadth of the debt relief under the initiative, the suggestions for relaxing the eligibility criteria, increasing the magnitude of debt relief, shortening the period required to benefit from the initiative, and providing additional resources during the interim period. Ministers are aware that implementing these improvements will increase the cost of providing debt relief and that funding sources currently under consideration—the intended sale of a portion of the IMF's gold holdings and the transfer of balances from the SCA-2 [Special Contingent Account]—will provide only a small proportion of the required resources. They emphasize the necessity of appropriate burden sharing and of finding sufficient alternative financing mechanisms to provide additional relief, while at the same time working on the modalities of gold sales to minimize any negative impact on the international price and, therefore, on the economies of gold-producing developing countries. Ministers welcome the recent expressions of intent by the Group of Seven, as well as other creditor countries, to support the idea of restructuring the initiative and their willingness to forgive poor countries' ODA [official development assistance] debt. They hope that this will not be at the expense of new ODA flows. Ministers urge these donor countries complement their contributions to the HIPC Initiative and take steps to reverse the disturbing decline in ODA, which remains critical for the poorest countries even after the completion of comprehensive debt-relief operations. While they appreciate the successful conclusion of the IDA-12 replenishment, they express their serious concern about the persistently declining ODA flows, which now stand at 0.2 percent of DAC [Development Assistance Committee] countries' GNP.

Ministers support proposals to enhance assistance to postconflict countries. They welcome the suggestion for additional IMF assistance up to 25 percent of quota in the second phase to provide required resources, as well as a longer time period for the countries to rebuild their productive capacities. Ministers expect that IMF assistance for postconflict countries from its General Resources Account will be transformed into sufficient funding of a concessional character to permit eligible members to repay their nonconcessional drawings from the IMF. Ministers appreciate World Bank proposals to address some of the major issues in postconflict countries that have protracted arrears. They consider it essential to develop a collaborative approach that would be compatible with the policies on protracted arrears enunciated by the respective international financial institutions.

Ministers also welcome the proposals being discussed in the World Bank with regard to broadening the concept of conflict countries to include countries that are affected by conflict situations or at risk of conflict. With a view to achieving the Bank's overall goal of poverty alleviation, ministers urge that appropriate mechanisms be developed by the Bank to assist these countries.

Ministers note that the Partnership for African Capacity Building Initiative has reached an advanced stage of preparation. As the lack of human and institutional capacity is perceived as a major constraint in the economic development efforts of sub-Saharan Africa, ministers strongly urge the Bretton Woods institutions and bilateral and other multilateral donors to provide adequate resources and assistance to launch the initiative and ensure its successful implementation.

Ministers agree in principle that a comprehensive development framework (CDF) is essential to maintain a balance between macroeconomic and social concerns. However, they are concerned about the planning capacity of members and external partners and the cost implications for borrowers in this regard. Ministers urge caution about the social and political sensitivity of the governance issues involved. They note that the CDF is still in an evolving mode, and a number of details regarding the implementation strategy need to be further elaborated and developed. Ministers urge that the Bank closely monitor the pilot programs under the CDF and that the experience be used as an opportunity for further refining the approach.

Ministers endorse the basic principles on promoting social development stipulated by the "Copenhagen Declaration" and support the UN agencies' coordination on the implementation of such principles. The Bretton Woods institutions and the regional development banks should participate according to their respective mandates and comparative advantages. Large differences exist among countries in terms of social development levels, policies, and stages of economic development. Therefore, when formulating principles and good practices in social policy, country characteristics and their social standards must be respected.

Ministers attach importance to the UN initiative on a high-level forum on financing for development, scheduled for 2001. In view of the importance of the subject for the Group of 24 and the Bretton Woods institutions, ministers urge joint collaboration by the UN and the Bretton Woods institutions to ensure the success of the initiative.

The Group of 24 ministers will meet again on September 25, 1999. ■

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

Joint conference examines causes of volatility, searches for new ways to prevent, manage crises

The search for effective responses to capital flow volatility and the crises that have characterized the past decade was the focus of a conference jointly sponsored by the World Bank, the IMF, and the World Trade Organization on April 15–16. Designed to share recent research, the conference drew distinguished participants from central banks and universities as well as from the senior management and staff of the three sponsoring institutions. The two-day event explored capital flow volatility, the quest for models to predict crises, and a range of remedial actions—including capital controls, liquidity requirements, and super bankruptcy provisions. A concluding roundtable offered a spirited debate on the respective roles of the public and private sectors in crisis prevention and management.

Capital flow volatility

Michael Mussa, Director of the IMF's Research Department and coauthor with Anthony Richards of a study reviewing capital flows in the 1990s, offered a broad overview of trends in capital flows and the factors influencing these flows. He suggested that high growth rates, liberalized capital account regimes, perceptions of sound macroeconomic policies, widespread government guarantees (implicit and explicit), and official or de facto pegged exchange rates in emerging market economies had a role in boosting capital flows to these countries. Sharp fluctuations in these flows raised a number of questions: most critically, what prompted surges and collapses in flows? what caused the crash? could crises be predicted? and can crises be prevented? To the last question, Mussa gave a resounding "no," arguing that crises seem to be an intrinsic feature of the international monetary system.

Michael Mussa

Mussa labeled as "largely nonsense" the idea that the prospect of IMF support had encouraged unwise capital flows. Moral hazard, he said, is a pervasive phenomenon, but with the possible exception of Russia—which might have been too important to fail—it is not an important element in the movement of capital flows.

Contagion, demonstration effects, and fundamentals. In an examination of the co-movement of international asset price and capital flows during crises, Holger Wolf of Georgetown University found fairly robust evidence that the correlation increases during crises. Less clear-cut was the link between observable news and prices. He did find fairly strong evidence suggesting that a significant group of traders follows trends—a finding that may have some implications for the debate over the global financial architecture.

Holger Wolf

Financial support packages, for example, may diminish the incentive to learn about and act on information differentiating investments, but they may also reduce precautionary exits from noncrisis markets. And while it may not be easy to target capital controls to the investors most likely to generate contagion—herd traders with incomplete information—these investors may be disproportionately represented in short-term investments and are thus somewhat targetable through inflow controls.

Financial services trade and financial stability. Masamichi Kono and Ludger Schuknecht of the World Trade Organization made a case for giving greater importance to financial services trade policy. Pursuing a balanced liberalization strategy over the full spectrum of financial instruments and allowing a foreign commercial presence, they said, decreased distortions and volatility in capital flows and helped create a less crisis-prone financial system.

Ludger Schuknecht (left) and Masamichi Kono

The authors argued that even a country fearful that capital flows might exacerbate a weak financial system could still benefit from the capacity building and increased efficiency that could accrue from the participation of foreign commercial institutions and the liberalization of a range of financial instruments. Kono and Schuknecht encouraged countries to pursue further financial services trade liberalization within the General Agreement on Trade in Services framework.

Predicting crises, confronting contagion

Interest in crisis prediction has mounted in the 1990s as the frequency, size, and virulence of crises have sharply increased. Eduardo Borensztein of the IMF, presenting a paper coauthored with Paul Masson, Andrew Berg, Gian Maria Milesi-Ferretti, and Catherine Pattillo of the IMF, wryly conceded that predicting crises is "not totally hopeless." These models can contribute to the task of crisis prediction and, hence, better prevention and preparation. Borensztein divided theoretical models that explain crises into generations—the first focusing on macro imbalances; the second emphasizing self-fulfilling attacks. To this mix, several new elements have been added—chiefly, attention to market failures in financial markets and serious information failures.

Eduardo Borensztein

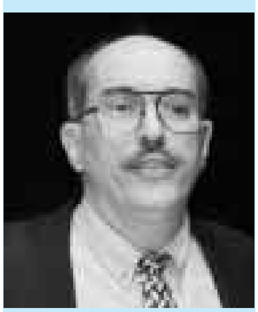
Empirical models to predict crises should include elements from all families of models.

How do these empirical models do? Borensztein's paper tests a range of models and finds that, while they often provide warnings of coming crises, their reliability is not very high. The models typically generated a 50–60 percent rate of false alarms, although some of these instances correspond to situations where adept policy management forestalled approaching problems. Among the drawbacks to these models are the risk of "refighting the last battle" and ignoring country idiosyncrasies. But the models have demonstrated some predictive power, Borensztein insisted, and have the advantage of providing a systematic method to assess country vulnerability and risk factors. He counseled that these models are best used prudently and as a complement to standard forms of analysis.

Carmen Reinhart

Contagion. Surprisingly little research, noted Carmen Reinhart of the University of Maryland, has been devoted to the process by which crises are transmitted. Her paper, coauthored with Graciela Kaminsky of George Washington University, examined possible trade and financial channels through which disturbances are transmitted, assessed the incidence of contagion across regions and time, and weighed the role of international bank lending, the potential for cross-market hedging, and bilateral and third-party trade in spreading crises.

Contagion theories have focused on liquidity concerns (leveraged investors may sell elsewhere to meet margin calls), herding (with the high cost of information, investors tend to follow trends), cross-market hedging, and trade links. The channels through which contagion moves are typically thought to be either financial or trade links. Trade in goods and services and strong ties through common bank lenders have historically explained contagion patterns, but Reinhart cautioned that much has changed in emerging market economies since the 1980s. Mutual fund exposure in emerging markets is now an important element, and cross-market hedges have become commonplace in emerging market trades. Financial linkages are the more likely culprit in recent crises—in the turbulence in Argentina after Mexico or in Indonesia after Thailand. These financial market channels, she concluded, need to be better understood and quantified if policymakers hope to shield emerging markets from instability and contagion.



Peter Montiel

Policy responses to turbulence

Within the span of a decade, developing countries have had to cope with both a flood of capital inflows and a sudden and nearly complete drying up of those flows. What has this taught us? asked Peter Montiel of Williams College. Perhaps the clearest lesson, he said, is that whatever the costs of avoiding or dealing with an overheated economy, they pale beside the destruction wrought by a full-fledged crisis.

From the experiences of Mexico and Thailand, where a perceived exchange rate misalignment emerged from a policy mix that included an open capital account, an inflexible exchange rate policy, and an excessive reliance on monetary rather than fiscal policies in dealing with overheating, Montiel drew two principal lessons:

• Once countries become integrated into world financial markets, an unsustainable high-interest-rate-defense of an overvalued exchange rate is a recipe for a currency crisis.

• Once vulnerability has arisen, postponing the inevitable merely aggravates the consequences by fueling the prospect of a liquidity crisis and prompting a much graver loss of confidence and much sharper exchange rate movements than would have otherwise occurred.

Countries do not seem to learn from the mistakes of others, but the good news, Montiel said, is that they do seem to learn from their own experience, as Chile proved when it took effective measures to reduce vulnerability to a liquidity crisis.

Practical measures. What instruments and policy adaptations, asked Michael Dooley of the University of California at Santa Cruz, offer effective responses to volatile capital flows? And given governments' inability to allow large financial institutions and domestic firms to fail, which responses best suited the political and administrative constraints of developing country governments?

Michael Dooley

Arguing that this "insurance problem" has likely been a factor in many recent crises, Dooley suggested that there is a credible and coherent argument for imposing entry taxes on inflows when a country lacks the wherewithal to effectively monitor domestic firms and intermediaries. The key element here, he added, is that the tax should fall disproportionately on investors with short expected holding periods (as distinct from maturities).

Developing country governments should also avoid financial intermediation, since the capital gains and losses on the resulting asset and liability structures are likely to trigger capital inflow or crisis sequences. They would also be advised, he noted, to avoid debt and asset structures that needlessly prolong and intensify the downturn in economic activity that follows from "default"—defined as the interval following an attack on the government's resources during which creditors compete for repayment without agreement on the terms of repayment.

Chile's and Argentina's experiences. Leonardo Hernández and Klaus Schmidt-Hebbel of the central bank of Chile examined the impact of capital controls in Chile and lent several cautionary notes to the discussion. They cited the inherent costs to capital controls, including a misallocation of resources and a lower rate of investment and growth. "The jury's still out," they said on how efficient the controls are; clearly, the effectiveness of controls has eroded over time. For countries seeking to emulate Chile, they also warned that some of the favorable preconditions Chile enjoyed—namely, low corruption and respect for the law—may not be present elsewhere.

Andrew Powell of the Central Bank of Argentina and Miguel Kiguel, the undersecretary of finance in Argentina, argued that countries have a spectrum of potential capital market interventions available to them in dealing with the risks implicit in accepting foreign capital. Argentina sought to reduce its vulnerability through a low level of short-term debt (3 percent of total), by keeping ample cover for financial obligations (three to six months), and through a debt structure that featured generally long-term debt (with maturities averaging eight and a half years) and a balanced portfolio of foreign- and domestic-denominated debt. Debt management, they stressed, was the key.

Super Chapter 11. Joseph Stiglitz of the World Bank and Marcus Miller of the University of Warwick suggested that the dramatic output collapse that characterized the Asian crisis could be averted through forced debt rollovers and debt writedowns under a super Chapter 11 bankruptcy procedure. Such a procedure, Stiglitz said, would allow firms to write off debt increases due to devaluations in excess of a given limit.

While bankruptcy procedures, he noted, are central to modern capitalism, the global economy has yet to develop a simple means to cope with the systemic impact on a domestic economy from macroeconomic shocks. Where the problem is genuinely systemic, it is not advisable to replace management; it would be better, Stiglitz said, to develop a super Chapter 11 that provides a speedy bankruptcy process that allowed continued production and minimized disruption of the economy.

Roundtable

In the concluding roundtable, Stanley Fischer of the IMF, Joseph Stiglitz, David Folkerts-Landau of Deutsche Bank, and Yung Chul Park of the Korea University turned their attention to creating a more stable and efficient world economy. Park offered the perspective of a crisis country. He asked where the impetus for key structural reforms is now that capital is returning to Korea. Only last year, he observed, the markets insisted Korea tackle its debt-equity ratio, cross guarantees, and excess capacity. Now the markets are concerned only about growth rates and current account positions. So much, he said, for market discipline.

Indeed, he added, how can progress be made on excess capacity, corporate restructuring, or the adoption of Anglo-U.S.-style corporate governance when businesses are awash with borrowing opportunities? The government lacks the instruments to pressure corporations to continue with the restructuring, and the IMF, he believed, was sending mixed signals to the market—agreeing there is room for expansionary policy and simultaneously expressing dissatisfaction with the pace of the restructuring.

Folkerts-Landau contended that what was driving the public sector's discussion of architectural reform was a belief that markets are irrational and perhaps even predatory. He strongly disagreed with this analysis and with the prescribed remedies. Flawed fundamentals, he believed, played a central role in all these crises. And the proposed remedies, which he clustered under four initiatives—"bailing in" the private sector, burden sharing, orderly workout and legal standstills, and capital controls—would have, he predicted, limited impact beyond the short term, and high welfare costs.

The chief weakness in the current system, he argued, is faulty global surveillance. He was sharply critical of the IMF for failing to predict all three global crises over the past 20 years. IMF surveillance was, he said, insufficiently financial, insufficiently global, and insufficiently adversarial. To be effective, the IMF should act more like a central bank and possess appropriate surveillance power over its membership and appropriate sanctions to enforce proper behavior.

Taking keen exception to both Folkerts-Landau's analysis and his recommendations, Stiglitz stressed that the huge volatility in capital flows had its origins in imperfect information and a "whole variety" of market failures. The presence of market failures provided the basis for government intervention. He explicitly challenged Folkerts-Landau's contention that better surveillance would have averted these crises. Key ingredients of these crises, such as fixed exchange rates and Korea's debt-equity ratio, were, in fact, public information.

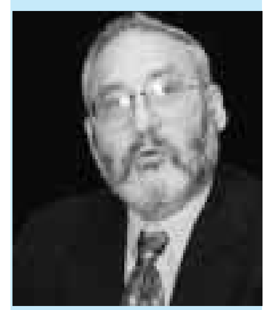
Stiglitz believed a variety of interventions, including incentive-based regulatory systems, could improve market performance. He reiterated his support for a super Chapter 11 bankruptcy procedure, insisted that in at least some countries entry taxes might serve as a useful stabilizer, and counseled countries and international organizations to be mindful of the strong evidence that capital account liberalization is associated with instability and high welfare costs.

Concurring with Stiglitz's analysis of the nature of the problem, Fischer noted that it was very hard to have a rational discussion about recent events, such as the Russian crisis, without using terms like contagion, panic, and herding. Indeed, he said, everyone should be able to agree that the extreme volatility in capital flows in recent years and the massive recessions in their wake clearly suggest room for improvement.

Fischer focused his comments on exchange rate regimes and measures to involve the private sector

Yung Chul Park

David Folkerts-Landau



Joseph Stiglitz

Stanley Fischer

more closely in the resolution of crises. On exchange rate regimes, he observed that the experiences of countries that had crises, as well as those that could have been expected to have crises had they had a fixed rate (he cited Mexico, South Africa, and Turkey), argue that the mixture of a fixed exchange rate and free capital flows "puts extreme demands on institutions and on policies and is dangerous." The experience of Argentina and Hong Kong SAR with currency boards suggests the current wisdom is to "peg very hard or float, but don't choose something in the middle." But he would not be surprised, he added, if in a few years questions were raised about the advisability of a free-floating regime for small economies, leading to managed float regimes, possibly within wide bands. He also foresaw increasing interest in dollarization and currency areas.

On private sector initiatives, the intent is to involve the private sector in both crisis prevention and crisis resolution, since the two are inextricably linked, according to Fischer. The precrisis proposals would seek to encourage better policies, better prudential regulation, and perhaps capital inflow controls that might nudge the private sector into making sure its investments enter a country in the right form. The postcrisis proposals would focus on structured notes (that is, allowing the payment stream to fluctuate more in accordance with developments in emerging market economies) and making bonds easier to reschedule before a crisis, by allowing for a modification of terms by qualified majorities through collective representation provisions.

Fischer acknowledged strong private sector resistance to initiatives such as bond rescheduling. "There's a complicated game—in the game theory sense—being played here." The incentives that borrowers and creditors have to make it very difficult to restructure offer all the more reason, he said, for the international community to push for changes in contracts.

The experience with voluntary restructurings in Thailand, Korea, Brazil, and Ukraine was neither nice nor elegant, but it was necessary, according to Fischer. He noted that there was a contradiction between Eurobonds being sold at large spreads and the view that any restructuring of such instruments, if it was needed, would damage confidence in the basis on which debt agreements are made. Spreads like that must, he said, "have involved the expectation by the creditors that something like this could happen."

Finally, Fischer stated that while the IMF should always be trying to do a better job at surveillance, it is necessary to recognize that surveillance cannot prevent all crises—both because even the best analysts will sometimes fail to foresee crises and, in some cases, because countries that are warned do not take action. Accordingly, the system needs to be strengthened, both in crisis prevention and crisis response modes, through changes in contracts, improved prudential regulation on the creditor and debtor side, contingent financing, and improved behavior on the part of both the private sector and the government. ■

Sheila Meehan
Senior Editor, *IMF Survey*

World Economic Outlook

Global economy appears to be on path to recovery, but unclear prospects cloud forecast

The worst of the financial crisis that swept through Asia in 1997 and 1998 and spread to Russia and Brazil in 1998 and the first part of 1999 may be over, according to the latest *World Economic Outlook*, the IMF staff's biannual survey of global prospects and policies. The global recovery could pick up steam in 2000, but there are several important risks that could affect the outcome. Speaking at a press briefing on April 20, Michael Mussa, the IMF's Economic Counsellor and Director of the Research Department, said that for 1999, world growth is estimated at 2.3 percent. For the year 2000, Mussa said, the *World Economic Outlook* foresees a recovery of world output growth to 3.4 percent.

The current weakening of world economic growth marks the fourth global economic slowdown in the past quarter-century, according to the *World Economic Outlook*. It began with the sharp declines in domestic demand and activity in the four countries hardest hit by the Asian crisis—Indonesia, Korea, Malaysia, and Thailand. Japan's deepening recession in 1998 contributed to the difficulties being experienced elsewhere in Asia. In most of the rest of the world, activity was relatively well maintained during 1998, although signs of a slowdown in industrial activity became increasingly apparent, and the growth of world trade slowed sharply to 3¼ percent in 1998, the lowest since 1985. World trade is projected to recover somewhat to 3.8 percent in 1999 and to 5.8 percent in 2000.

Improvements and setbacks

Since the end of 1998, some significant positive developments in the world economy have been broadly balanced by some important setbacks. Among the setbacks, the crisis in Brazil that led to the abandonment of its crawling-peg arrangement in mid-January was another dramatic episode in the recurrent bouts of instability that have marked global financial markets since 1997, according to the *World Economic Outlook*. Although financial contagion from the Brazilian crisis has been limited and the situation in Brazil itself has stabilized, the crisis has imparted a new contractionary impulse to the global economy. Financial sector fragilities in several emerging market economies, including China, add to the risks of continued turbulence. Further, in Russia, the delay in adopting coherent policies to promote stabilization and reform has postponed improvements in the economy. The conflict in the Federal Republic of Yugoslavia will have severe effects on neighboring countries. Japan's economy remains weak. Also, the series of emerging market crises, as well as the uneven pattern of growth among the United States, the euro area, and Japan, have increased global trade imbalances.

On the positive side, after the deep contractions in output in the Asian countries affected by the crisis, activity has recently turned around in Korea and appears to have bottomed out in Malaysia and Thailand. Investor sentiment toward many emerging market economies has rallied, while conditions in mature financial markets have also improved following the broad-based easing of monetary conditions undertaken partly to address concerns about a credit crunch in the wake of Russia's default last August. The introduction of the euro has proceeded smoothly, and more generally, most of the advanced economies of North America and Europe have proved resilient to the crises in emerging markets. Particularly notable has been the continued strong growth of the U.S. economy.

Forecasts for 1999 and 2000

The forecast for 1999 is little changed from that of the interim *World Economic Outlook* of December 1998 (see *IMF Survey*, January 11, page 1), Mussa said at the press briefing. It reflects upward revisions in the forecast for the United States, Canada, Australia, Korea, Thailand, and Malaysia, offsetting weaker forecasts for Japan, Latin America, and a number of European economies. The chances that this forecast could be too high or too low are relatively even, Mussa said, marking a considerable change from last December when the balance of risks was decidedly on the downside. He emphasized that policy actions—both in the industrial countries where monetary policies have been eased significantly and in emerging market countries where reform efforts have been strengthened—have contributed to this evening up of the risks.

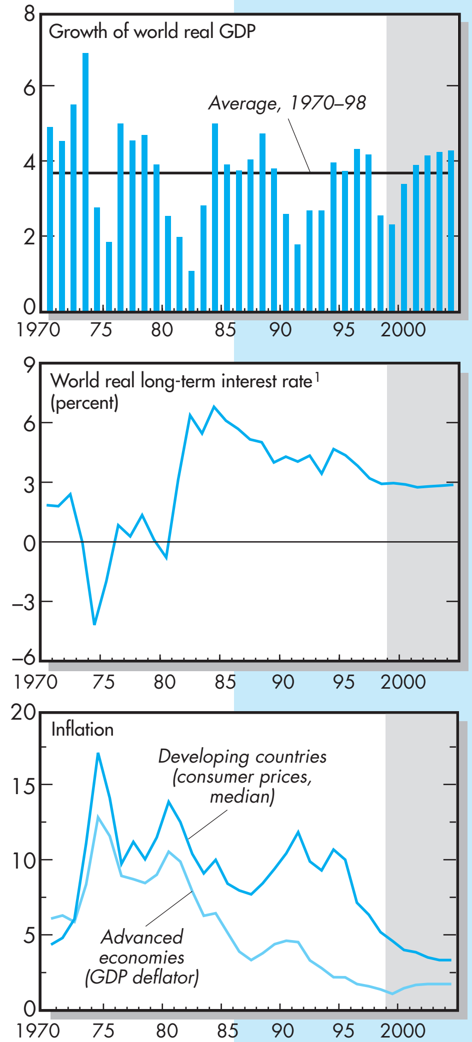
Although the forecast for 2000 is 1 percentage point stronger than last year and there are good reasons to expect recovery, Mussa said the forces that will sustain the recovery are not completely secure, and the balance of risks that the IMF staff's projection will materialize remains on the downside. There are growing indications that activity in the Asian crisis economies is close to its trough, but, according to the *World Economic Outlook*, this is unlikely to signal an early reversal of the global slowdown. Indeed, in 1999, new negative forces are contributing to a second phase of the slowdown in the global business cycle—including the repercussions and spillovers from the Russian crisis and the crisis in Brazil and spillovers from the latter to the rest of Latin America. Some of the industrial countries that have seen the most vigorous sustained expansions in recent years—such as Norway and the United Kingdom—have recently experienced cyclical slowdowns; growth in the U.S. economy is also expected to slow moderately in the period ahead; and downward revisions to projections for much of western Europe now point to near-term growth somewhat below potential.

The IMF staff's baseline projection for 2000 assumes that, for emerging market economies, financial market conditions will improve further, that the U.S. economy will experience a soft landing, that growth in the euro area will remain reasonably resilient in the face of an unfavorable external environment, and that the Japanese recession will bottom out in 1999. However, as Mussa noted in the press briefing, there is a distinct possibility of a less favorable scenario developing:

• There is some question about how global growth can be restored to near potential, given that domestic demand growth in the United States, which has been running at an unsustainable pace for the past three years—at about 4 percent of GDP—will eventually need to slow down at some point over the next year or two, in order to allow some narrowing of the U.S. current account. As the *World Economic Outlook* notes, the slowdown could be more abrupt than assumed if inflation picks up, the stock market undergoes a significant correction, or the private sector begins to correct its large saving shortfall more quickly than assumed.

• The *World Economic Outlook* forecasts a recovery in growth of about 3 percent for Europe, but, Mussa said, the basis for that recovery has yet to become apparent. The recent easing of monetary policy by the European Central Bank and the depreciation of the euro will have positive effects, he observed, but it is too soon to predict the outcome.

Global indicators
(annual percent change unless otherwise noted)



Note: Shaded areas indicate IMF staff projections. Aggregates are computed on the basis of purchasing-power-parity (PPP) weights unless otherwise indicated.

[1]GDP-weighted average of 10-year (or nearest maturity) government bond yields less inflation rates for the United States, Japan, Germany, France, Italy, the United Kingdom, and Canada. Excluding Italy prior to 1972.

Data: *World Economic Outlook*, 1999

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• In Japan, Mussa noted, the economy appears to be bottoming out, and growth well above the *World Economic Outlook* forecast of 0.3 percent is certainly possible. But recovery of consumer confidence is essential to drive the recovery of private demand, and continued policy support needs to be provided until the private sector is clearly in recovery mode.

• Most of the crisis economies of Asia are clearly turning around, Mussa said, but that turnaround needs to be sustained, both by policy action and by recovery in the private sector.

• In China, strong stimulative policies have helped sustain growth in 1998 and in the first part of 1999, but that level of support cannot continue indefinitely, Mussa noted.

• Much of Latin America, particularly South America, is in recession, and recovery should begin later this year, Mussa said. A strong rebound is certainly feasible, and the same may be said for a number of developing countries and transition economies. All of the developing and emerging market economies, however, will need to rely on at least a moderately favorable growth environment among the major industrial countries if they are to achieve the growth forecasts in the present *World Economic Outlook*.

• Another key uncertainty in assessing the global outlook, according to the *World Economic Outlook*, is the potential for further financial market turbulence and contagion, especially in the light of the apparently heightened perception of, and increased aversion to, risk in financial markets.

Other risks that could affect the forecast, according to the *World Economic Outlook*, stem from the uneven pattern of growth among the three large currency areas since the beginning of the decade, which has resulted in a marked widening of external current account imbalances. These imbalances, which have been exacerbated by the emerging market crises, carry significant risks for the world economy through a potential rise in protectionist pressures or excessive and potentially destabilizing movements in exchange rates among the major currencies.

In response to a question at the press briefing, Mussa said the impact of the Kosovo crisis on the closely bordering countries of Albania and the former Yugoslav Republic of Macedonia would obviously be significant and that there would be broader adverse consequences for other countries in southeast Europe, including Bulgaria, Hungary, and Romania. However, the fiscal and GDP impact of the Kosovo crisis on the United States and the euro area will be small and, at the global level, will not significantly influence the performance of the economy.

Flemming Larsen (left) and Michael Mussa at the press briefing on the World Economic Outlook.

Selected topics

In addition to its review of recent economic developments and prospects, the *World Economic Outlook* features in-depth analyses of special topics. At the press briefing, Flemming Larsen, Deputy Director of the Research Department, said that Chapters III and IV of the current *World Economic Outlook* focus on particular aspects of three main themes that run through the study:

• The ongoing process of adjustment in the wake of the emerging market crisis in the crisis countries themselves, in the countries that have been adversely affected by negative spillovers and financial contagion, and in global financial markets and the pattern of international trade. The issue of financial contagion, which has been such a prominent feature of the recent crisis, Larsen said, is analyzed in depth in Chapter III.

• Medium-term implications of the lopsided pattern of growth recently experienced among the industrial countries and the widening of external payment balances that have resulted.

• The complementary roles of macroeconomic and structural policies in helping to achieve stronger sustained growth over the medium term, especially in Asia where there is a continuing need to persevere with the structural reforms initiated in the wake of the crisis; and in Japan, where reforms are needed not only in the financial sector, but also more broadly in the economy to promote restructuring, increase efficiency, and enhance employment prospects. The same mix of macroeconomic and structural policies will also be needed in Europe where Economic and Monetary Union has added to the urgency of reforming European labor markets. Chapter IV focuses on the chronic unemployment problem in the euro area.

The text of the *World Economic Outlook* press briefing is available on the IMF's website (www.imf.org). Copies of the spring edition of the *World Economic Outlook* will be available in mid-May for $36.00 (academic rate: $25.00) each from IMF Publication Services. See ordering information on page 141.