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In this issue

IMF–World Bank Annual Meetings

Ministers vow to stoke global recovery

Meeting in Dubai, United Arab Emirates, on September 20–24, the world's top economic policymakers and financial leaders agreed to step up efforts to secure a stronger global recovery, resume stalled trade talks, accelerate efforts to achieve the UN Millennium Development Goals, and reconstruct Iraq. The IMF–World Bank Annual Meetings, held for the first time in the Middle East, attracted representatives from all 184 member countries of the two institutions, plus thousands of others—including banking executives, representatives of civil society organizations, academics, and journalists—for events on the sidelines.

Gordon Brown, the U.K. Chancellor of the Exchequer and Chair of the IMF's ministerial steering *(Please turn to the following page)*

Japan's financial system assessment

Removing bad loans will be a crucial first step in restoring health to banking sector

Ingves: "In my experience, if banks wait for the economy to solve their problems, they may never work themselves out of their difficulties."

Despite a series of initiatives, Japan's financial sector remains weak and is holding back prospects for a sustained economic recovery. This appraisal, which is the product of a careful diagnostic examination under the IMF and World Bank's joint Financial Sector Assessment Program (FSAP), urges Japan to intensify efforts to address nonperforming loans in the banking sector and tackle the structural reforms needed to produce a healthy financial system. Stefan Ingves, Director of the IMF's Monetary and Financial Systems Department, and Paul Hilbers, Area Chief in that department, led the assessment effort. They speak with the IMF Survey *about the assessment and its findings.*

IMF SURVEY: Japan has had a troubled financial sector, and economic growth has been low. Can't the banking sector's problems be dealt with simply by revitalizing the economy?

INGVES: In my experience, if banks wait for the economy to solve their problems, they may never work themselves out of their difficulties. It is better to acknowledge that things didn't go well and really work on the solution. This means, at the level of individual *(Please turn to page 290)*

committee—the International Monetary and Financial Committee (IMFC)—hailed the meetings as a success, telling reporters "we were determined to show that economic change round the world need not impoverish millions of people but can enrich even the poorest communities" (see IMFC press briefing, page 274). His sentiments were echoed by IMF Managing Director Horst Köhler, who told the ministers in his closing remarks that "these meetings have underscored that the multilateral spirit of cooperation is intact and strong." After the recent breakdown of global trade talks in Cancún, he said, this reassertion of multilateralism is "the most important outcome of this meeting."

U.S. Treasury Secretary John Snow, left, walking with U.K. Chancellor of the Exchequer Gordon Brown to the Group of Seven Finance Ministers' meeting in Dubai.

Stoking recovery

For the economic policymakers, the top agenda item was the need to secure the nascent strengthening of the global economic recovery. Köhler told delegates in his opening address that the "increasing signs of a recovery in a number of regions are a welcome indication that the world economy may have turned the corner" (see page 268). The IMF is forecasting global growth at 3.2 percent in 2003, rising to 4.1 percent in 2004, just a little bit above normal. IMF Economic Counsellor Kenneth Rogoff told reporters before the IMFC meeting that immediate geopolitical uncertainties have receded, aftershocks from the bursting of the equity price bubble are dissipating, and the massive policy stimulus put in place after the downturn is starting to bear fruit (see *World Economic Outlook*, page 295).

However, Köhler cautioned that "nurturing the recovery will require vigilance and decisive economic policy management." He cited two key risks: large global current account imbalances and persistent high levels of public debt in many countries. He insisted that countries now need to strengthen the foundations of domestic growth and allow "more flexibility in exchange rates where appropriate."

This remark came on the heels of a Group of Seven call for "more flexibility in exchange rates...for major countries or economic areas to promote smooth and widespread adjustments in the international financial system, based on market mechanisms" (see Group of Seven communiqué, page 278)—a call that the markets interpreted as a new willingness to see the dollar decline. There was also some confusion, however, as U.S. Treasury Secretary John Snow was reported initially to have referred to this Group of Seven statement as a "milestone change," but subsequently to have said that the U.S. strong-dollar policy was unchanged, while other participants, such as officials from the United Kingdom and Japan, were reported to have said that nothing had changed.

As for surveillance, Köhler told ministers that he was encouraged by the IMFC's endorsement of the IMF's framework for surveillance, which had been developed in recent years to help prevent financial crises and promote stability and sustained global growth. "I believe our work has contributed to the remarkable resilience of the international financial system in the face of unprecedented shocks during the past three years." Going forward, he said, the IMFC is asking the IMF to step up its surveillance of systemically important countries and spillovers from capital markets.

Doha breakdown

Casting a shadow over the meetings and the global economic outlook, however, was the collapse of trade negotiations at the World Trade Organization ministerial meeting in Cancún, Mexico, a week earlier. Cancún should serve as a "wake-up call" for the international community, Köhler said. "We all know that trade is the most powerful force for global growth and poverty alleviation. And this force works best when applied in a multilateral, rules-based context. What is needed now is political will on all sides to overcome the impasse and return to the negotiating table as soon as possible. More than ever, success will depend on the leadership of the major industrial countries—and agriculture remains the key to unlocking decisive progress. And I reiterate the IMF's commitment to work on ways to provide targeted financial support to countries to cushion possible temporary adverse effects from implementing their commitments under the Doha Round."

The IMFC and joint IMF–World Bank Development Committee took the unusual step of asking the Bretton Woods institutions to prepare a report on what is at stake for the global economy in the Doha Round and to send it to heads of state and trade and finance ministers with a letter urging a return to the negotiating table. But the Group of 24 developing countries made it clear that they believed the rich countries were to blame for the Cancún breakdown, citing their unwillingness "to remove barriers to agricultural imports and subsidies to their farm producers" (see Group of 24 communiqué, page 280). Fuad Siniora, Lebanon's Minister of Finance and Chair of the Group of 24, told reporters that "the developing countries are feeling that they are being discriminated against, that they are not being given a chance to develop their countries, and that the terms of trade are not in their favor." He worried that if the issue were not tackled, countries would resort to destructive, beggar-thy-neighbor policies, erecting even more walls against trade, to the detriment of all parties.

Reaching the Millennium Development Goals

On the poverty-reduction front, the Development Committee called upon the World Bank, working with the IMF, "to examine the merits of various policy options, such as an international financing facility, to mobilize the substantial additional resources that are needed over the medium term and can be effectively used to achieve development results and scale up progress toward the Millennium Development Goals"—which include halving the 1990 poverty rate by 2015 (see Development Committee Communiqué, page 275). In relation to donor countries' incomes, which are at their highest levels ever, official development assistance is at an all-time low—down to 0.22 percent of their GNP from 0.5 percent in the early 1960s.

World Bank President James Wolfensohn told the delegates that "too few control too much, and too many have too little to hope for. Too much turmoil, too many wars. Too much suffering." He called for a new global equilibrium, a new balance in the relationship between rich and poor nations which is essential not just for poverty reduction but for security and peace. After all, he said, in a world of 6 billion people, 1 billion own 80 percent of global GDP, while another billion survive on less than a dollar a day; rich countries spend $56 billion a year on development assistance, while they spend $300 billion on agricultural subsidies and $600 billion for defense; and poor countries spend $200 billion on defense—more than what they spend on education.

The Group of 24 urged rich countries to provide "a substantial, timely, and predictable amount of additional official development assistance" in the short and medium terms, especially in sub-Saharan Africa, to meet the Millennium Development Goals—on top of respecting long-standing commitments to open up markets. Burkina Faso's Budget and Finance Minister, Jean Baptiste Compaore, told reporters that for countries like Burkina Faso, where over 40 percent of the population depends on cotton, if cotton is threatened, "then the very objectives that we are all trying to achieve under the Millennium Goals are going to be jeopardized " (see African finance ministers' press conference, page 288).

Iraq

As for Iraq, the financial leaders reaffirmed their support for a multilateral effort to reconstruct and redevelop the war-torn country, following appeals by Köhler and Wolfensohn to end the bickering and let global lenders get on with their job. The next step is a donors conference in Madrid October 23–24, during which the multilateral institutions, led by the World Bank, are expected to present a comprehensive needs assessment. Ministers from the U.S.-backed Governing Council attended the Annual Meetings as "special invitees." They announced a program of market-based economic reforms and said that the country needed about $70 billion for reconstruction. Köhler told reporters at the closing press conference that a critical element of any reform program will be its "ownership" by the Iraqi people. ■

Laura Wallace
Editor, *IMF Survey*

Wim Duisenberg, left, President of the European Central Bank, confers with Italian Finance Minister Giulio Tremonti.

Selected IMF rates

Week beginning	SDR interest rate	Rate of remuneration	Rate of charge
September 8	1.54	1.54	2.03
September 15	1.55	1.55	2.05
September 22	1.55	1.55	2.05
September 29	1.54	1.54	2.03

The SDR interest rate and the rate of remuneration are equal to a weighted average of interest rates on specified short-term domestic obligations in the money markets of the five countries whose currencies constitute the SDR valuation basket. The rate of remuneration is the rate of return on members' remunerated reserve tranche positions. The rate of charge, a proportion of the SDR interest rate, is the cost of using the IMF's financial resources. All three rates are computed each Friday for the following week. The basic rates of remuneration and charge are further adjusted to reflect burden-sharing arrangements. For the latest rates, call (202) 623-7171 or check the IMF website (www.imf.org/cgi-shl/bur.pl?2003).

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

Data: IMF Finance Department

Opening speeches

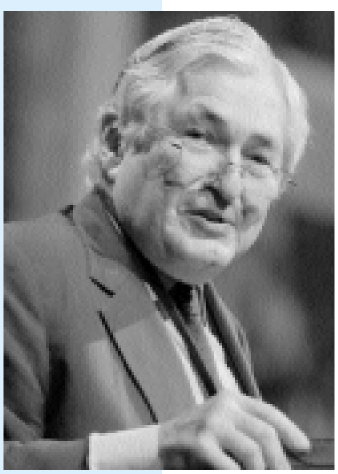
Köhler, Wolfensohn call attention to imbalances in world economy and between rich and poor

The need for better balance in the global economy was a prominent theme in the speeches of both IMF Managing Director Horst Köhler and World Bank President James Wolfensohn to the Boards of Governors of the two institutions at their Annual Meetings. Köhler spoke of the risks posed by global payments imbalances, and also of the need for long-term social and political balance and of the importance of social equity. Wolfensohn emphasized the importance of redressing the imbalances between developed and developing countries, and rich and poor.

IMF Managing Director Horst Köhler: "We now look to the United States to establish a credible framework for a return to a balanced fiscal position over the cycle."

Köhler focused on challenges facing the world economy. He referred to the increasing signs of recovery. But he cautioned against complacency and noted that the setback in the Doha Round trade talks in Cancún had not contributed to global confidence. He warned that "achieving a balanced recovery and return to sound and sustained global growth requires broadening our focus from the short-term requirements to the serious underlying problems that many of our economies continue to face."

Köhler noted a number of risks that continue to jeopardize global growth and international financial stability, including large global current account imbalances and high public debt in many countries. For example, Europe and Japan, which face looming pressures from aging populations, must take immediate steps to place their public finances on a sound medium-term footing. He observed that, in several emerging market economies where reserve accumulation has been rapid and current account surpluses are large, greater exchange rate flexibility would be helpful both domestically and globally. Finally, he said, while the sharp swing in public finances in the United States has provided economic stimulus to the global economy during this period of economic weakness, "we now look to the United States to establish a credible framework for a return to a balanced fiscal position over the cycle."



World Bank President James Wolfensohn: "Too few control too much, and too many have too little to hope for."

In his opening address, Wolfensohn drew attention to the imbalances in income, spending, and population between the world's rich and poor, noting that "too few control too much, and too many have too little to hope for." Rich countries, for example, spend $56 billion a year on development assistance, but $300 billion on agricultural subsidies and $600 billion for defense. Poor countries themselves spend $200 billion on defense, more than they spend on education. He described the Millennium Development Goals, which world leaders agreed upon three years ago, as remarkable. These goals have become the basis for a bargain between developing and industrial countries. Developing countries have pledged to improve their policies, and they have made progress, Wolfensohn said. But they need to implement more reforms, in particular to tackle cronyism and corruption.

For their part, developed countries have agreed to support developing countries' efforts by enhancing capacity building, increasing aid, and opening their markets to trade. They, too, have made progress, Wolfensohn said, but not enough. Debt relief is insufficient, and aid today is at its lowest level ever. Moreover, two-thirds of the world's poor people depend on agriculture for their livelihood. In Cancún, he observed, the developing countries signaled their determination to push for a new equilibrium and a new set of priorities but saw the rich countries putting forward proposals that did not respond to their central demands in this crucial area.

The breakdown of the Cancún trade talks, according to Köhler, must be a wake-up call for the international community. "We all know that trade is the most powerful force for global growth and poverty alleviation," he said, emphasizing that success would depend on the leadership of the major industrial countries. He agreed with Wolfensohn that more financing for development was needed to reach the Millennium Development Goals, and he reminded advanced countries that they need to live up to their commitments.

But Köhler also noted that some progress had been made in the fight against poverty. "I look forward to further close cooperation with Jim Wolfensohn and the World Bank, which must have the lead role in our joint work on low-income countries." The heads of the two institutions recognized that more cooperation was essential, both to achieve stronger worldwide growth and to change the world for the better. ■

Closing press conference

IMF, Bank laud renewed spirit of multilateral cooperation

At the closing press conference on September 24, Annual Meetings Chair Kaspar Villiger, World Bank President James Wolfensohn, and IMF Managing Director Horst Köhler recapped the highlights of the meetings. Their opening remarks, summarized below, are followed by edited excerpts from the question-and-answer session.

Two points stand out from this year's Annual Meetings, Villiger said. First, there is optimism that the global economy appears to be recovering, although the recovery remains fragile. To enhance growth and restore confidence, he said, policymakers must continue to pursue structural reforms and reduce fiscal imbalances. He noted that many governors regretted that the trade talks in Cancún did not yield a more positive signal, which could have helped boost confidence and raise global growth.

Second, progress toward achieving the Millennium Development Goals by 2015 needs to be accelerated, Villiger said. Developing countries need to redouble their efforts to promote good policies, while industrial countries need to increase official development assistance to finance growth, development, and poverty reduction. He noted that many governors had stressed the importance of enhancing the voice and participation of developing and transition countries in the decision making of the IMF and the World Bank. Developed and developing countries must continue to work together as partners if they are to continue making progress toward the Millennium Development Goals.

In Wolfensohn's view, the meetings represented a useful step forward in two respects. First, he said, there was a greater sense of balance in the discussions between the developed and the developing countries and a sense of realism about trade and aid, debt relief, and what each side had agreed to do in Monterrey. Perhaps as important as anything, Wolfensohn said, was the ability to meet in Dubai and project an image of the Middle East as an area of growth and great potential.

Köhler was also encouraged by the meetings, first because the global economy is "on a good track of recovery." Second, he said, the discussions underlined that there is a spirit of multilateral cooperation. Third, he was encouraged by the U.A.E. approach to policy. It relies on its own abilities and creativity, is responsible and self-confident, and is outward looking. This is needed not only for the Arab world but for the world as a whole, Köhler concluded.

QUESTION: What are the most important results of the 2003 World Bank–IMF meetings?

WOLFENSOHN: First, the economy, which is central to any issue of development, appears to be stronger. Second, there was an extremely valuable discussion of the link between trade, aid, and debt forgiveness and a recognition that we need to address these questions with urgency and probably on a greater scale than we have up to now. We picked up from Cancún that the voices of the developing and developed worlds need to be more equal.

KÖHLER: I would like to add that even more important than money is the recognition that we are all sitting in one boat—poor countries, rich countries, emerging market countries. We cannot move forward toward a better world with peace and prosperity if we do not recognize that this is an interdependent world and multilateral cooperation is needed.

QUESTION: Can we speak of any tangible commitment on the part of industrial countries to fight poverty and commit to a real spirit of free trade rather than raise more barriers to agricultural imports?

WOLFENSOHN: I sensed at these meetings a recognition that we are all in this together and a willingness to engage on issues in a very positive sense. I did not sense any great hostility. That does not mean that people are writing checks immediately, but that the framework of the discussion this time was one in which people were prepared to address difficult issues together. More attention is likely to be given to the long-term impact of poverty. If you give attention to that, then you have to do more if you are a rich country. I sensed a different mood in the room.

QUESTION: What can the World Bank, in particular, say to the Iraqi people that will give them hope that

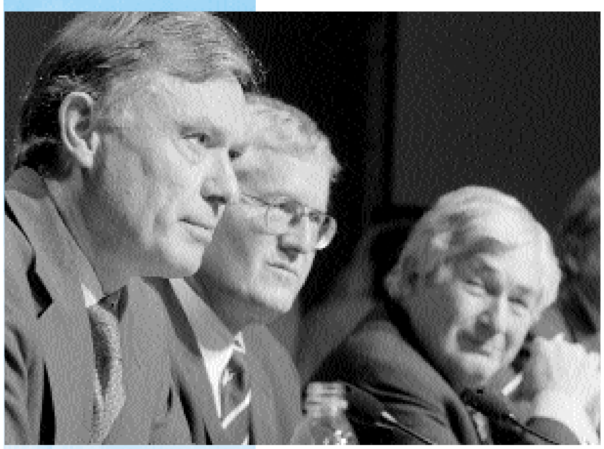
Even more important than money is the recognition that we are all sitting in one boat—poor countries, rich countries, emerging market countries.
—Horst Köhler

The heads of the IMF and World Bank surrounded by photographers at the concluding press conference.

life in 2004 is going to be a lot better than it has been in 2003?

WOLFENSOHN: We have been very clear on where we stand: we are in for the long haul in terms of reconstruction. In fact, I have a meeting after this with representatives of the Iraqi people to discuss the needs assessment. We will participate in any of the preliminary meetings, including the one in October, and we look forward to having a full team working as quickly as possible with the Iraqi people. We do not yet have the numbers because we need to find out what the people who are going to live in Iraq think about them. So there is no attempt to distort or hide. We are going through a process, and we will have it done early in October.

KÖHLER: The leaders of the world must now set aside their disputes over Iraq and form a consensus so that the international community can unite, and the World Bank and the IMF and others can go to Iraq and work together with the Iraqi people.



IMF Managing Director Horst Köhler, left, during the concluding press conference, as Annual Meetings Chairman and Swiss Finance Minister Kaspar Villiger, center, and World Bank President James Wolfensohn look on.

QUESTION: Mr. Wolfensohn, your reluctance to put out World Bank numbers on Iraq is obviously not shared by your largest shareholder. [Ambassador] Paul Bremer [Chief Administrator in Iraq] told Congress that the World Bank needs assessment, not the U.S. needs assessment, was $60–70 billion over 45 years. Is this accurate or even in the ballpark?

WOLFENSOHN: Mr. [John] Taylor's estimates are somewhere in the ballpark. I have the drafts and a summary of the preliminary estimates that have not yet been discussed with our Iraqi friends. So it would be foolish of me to come out with estimates at this stage. I am not sure how [U.S. Treasury Under] Secretary Taylor defined the use of the $60–75 billion. It may be part of the resources needed to run the country, and for basic reconstruction and oil- and security-related issues. We will have full disclosure, but it needs to be done when everybody has been consulted. Mr. Taylor is entitled to put out his estimates, but they are not World Bank estimates.

QUESTION: Iraq's debt is estimated at about $300 billion, which seems an impossible debt for its situation. If there were any decision to forgive Iraq's debt, who would be responsible for the financial commitments to the World Bank and the IMF—the U.S. administration or the temporary government of Iraq, which has not yet been recognized by all the states of the world?

KÖHLER: I cannot confirm the $300 billion debt. The number may comprise not only sovereign debt, but possibly also private debt and compensation for previous wars. It is clear that Iraq has a heavy debt and that debt relief must, and should, be part of the comprehensive effort to help in the reconstruction.

QUESTION: What do you have to say about the legitimacy of the drastic economic reforms suggested by the Iraqi ruling council in the absence of democratic accountability?

WOLFENSOHN: I will be discussing these issues with the Iraqi delegation. We did not come up with the program, and I do not have a lot of knowledge about it. So I cannot comment at this time.

KÖHLER: As to Iraq's economic program, I can say only that I have not seen it, and nobody discussed it with me. But we should take it as a step forward, as the first articulated position about what could be the way forward. We have drawn the lesson that ownership [of policies] is important. If this is not in the mind of the people, then it does not work. My advice is to work with the Iraqi people and to draw on lessons from other countries. This should be an inclusive discussion.

QUESTION: Mr. Köhler, the Group of Seven statement on currencies talked about flexibility. In your address yesterday, you used the phrase "more flexibility . . . where appropriate." Does that stem from a recognition on your part that, given the way the currency and the equity markets reacted to that news over the weekend, this was exactly the kind of slightly disorderly event the IMF is here to prevent?

KÖHLER: I do not think we should overinterpret the first reaction of markets. I expect markets to come down again. It was appropriate to say that global imbalances have to unwind in an orderly way. The first answer was clearly given: there has to be stronger domestic growth in regions outside the United States. But there was also an understanding, and I share this view, that exchange rates can also contribute to this orderly adjustment, but certainly the role of exchange rates is nothing that we should push ahead through public trumpeting and organizing pressure. We need to discuss it. We need to look at the fundamentals of economies and recognize that we are all sitting in one boat. So I am quite happy about this outcome of ministers' discussions. ■

IMFC communiqué

Ministers say speedy resumption of Doha Round vital for growth

Following is the full text of the communiqué of the International Monetary and Financial Committee, which held its eighth meeting in Dubai on September 21.

The Committee welcomes the increasing signs that economic activity is strengthening in many economies and the improved prospects for a steady and strengthening global recovery going forward. The major uncertainties have lessened since we met last April. Nevertheless, risks remain in many countries, and it is important that policymakers stand ready to take the necessary policy actions. The Committee underscores the importance of close international cooperation and determined action across the membership to foster a strong, sustainable, and broad-based economic recovery.

The Committee emphasizes that, as the recovery proceeds, all countries have an interest in seeing more balanced growth with orderly adjustment. Sustained and vigorous structural reforms in many areas, and domestic sources of growth, are important in this respect. The Committee agrees on the need for continued focus by the IMF on exchange rate issues across the membership.

The international community must urgently make progress on trade and development. Ministers reaffirm their full political commitment to a multilateral rules-based approach to trade liberalization and to making substantial and concrete progress. Ministers were disappointed at the breakdown of trade negotiations in Cancún. They urge a speedy resumption of the Doha Round, which is vital for strong global growth and our development objectives. This should focus on the issues of importance to all countries of open markets and fair access and the reduction of trade-distorting subsidies in all areas, notably in agriculture. The Committee reiterates the crucial importance of removing the obstacles and moving forward without delay and calls on all countries to play their part. It stresses the importance of the IMF's initiative to provide assistance to countries to help them address the transitional impact of trade reforms, which will contribute to the Doha Round.

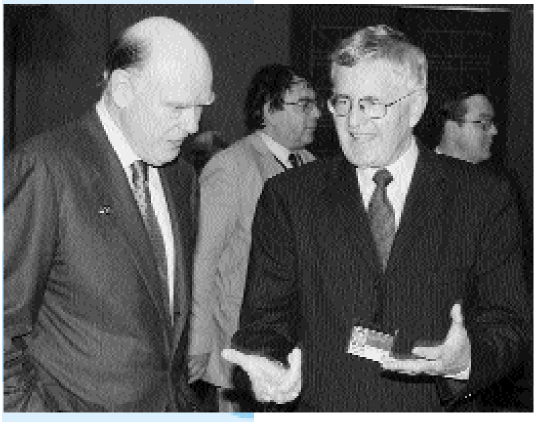
In the advanced economies, monetary policy should continue to support demand in the context of low inflation, and the automatic fiscal stabilizers should be allowed to operate within credible medium-term frameworks to deliver fiscal consolidation. The vigorous pursuit of structural reforms and enhanced corporate governance and transparency are key to stronger, globally balanced growth. In the United States, where the fiscal stance has substantially supported activity, fiscal policy will need to focus on strengthening sustainability over the medium term. In Europe, progress in structural reforms should be accelerated and deepened both to strengthen work incentives, investment, and competition and to address the fiscal pressures of population aging. In Japan, continued efforts will be necessary to strengthen the banking and corporate sectors and end deflation and to make a beginning toward fiscal consolidation over the medium term.

Saudi Finance Minister Ibrahim Al-Assaf, left, with Mervyn King, Governor of the Bank of England.

The improved financial market environment provides a valuable window of opportunity for emerging market economies to continue to pursue ambitious institutional and structural reforms that, together with sound macroeconomic policies, will enhance growth prospects and reduce vulnerabilities. While many countries have strengthened policies, key priorities remain to improve fiscal positions, strengthen banking and corporate sectors, reduce balance sheet vulnerabilities, and foster more broadly based growth. Growth in the Middle East and North Africa has picked up. However, the challenge facing the region will be to accelerate medium-term growth and absorb the rapidly growing labor force.

The Committee reaffirms its support for a multilateral effort to reconstruct and redevelop Iraq and welcomes the constructive role being played by the IMF. It looks forward to the donors conference in Madrid next month based on a comprehensive needs assessment involving the World Bank and the IMF. The Committee supports the IMF's providing, subject to its policies, financial and other assistance to Iraq.

Growth prospects in many low-income countries have strengthened, underpinned by improved macroeconomic policies and domestic reforms. However, significantly faster growth will be needed to reduce poverty and meet the Millennium Development Goals set out in the United Nations

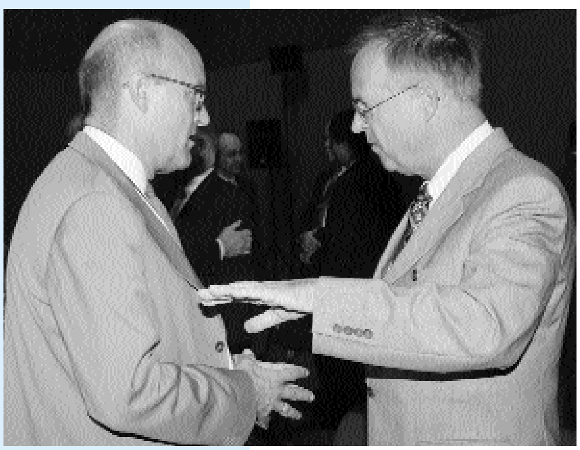


U.S. Treasury Secretary John Snow, left, with Swiss Finance Minister Kaspar Villiger.

Millennium Declaration. This requires stronger policy frameworks and institutions, better governance, higher and more effective aid flows, and improved market access. African countries should continue to press forward with the regionwide implementation of the New Partnership for Africa's Development, particularly to strengthen the foundations for investment and private sector–led growth.

Strengthening IMF surveillance, promoting international stability

Strengthened and effective IMF surveillance is essential to enhancing crisis prevention and promoting stability and sustainable global growth. The Committee welcomes the ongoing reforms to strengthen the framework for IMF surveillance and underlines the importance of enhancing and implementing surveillance consistently and evenhandedly across the membership. The Committee also welcomes the increased focus of surveillance on capital markets and encourages the IMF and the Financial Stability Forum, working together, to identify gaps and further strengthen assessments of systemic weaknesses in financial markets.



Swedish Finance Minister Gunnar Lundt, left, with his German counterpart, Hans Eichel.

The Committee stresses the need for the IMF to continue to improve the quality, effectiveness, and persuasiveness of its surveillance. This will involve sharpening surveillance, especially in systemically and regionally important countries, working to enhance the impact of IMF policy advice, and continuing efforts to bring fresh perspectives to assessments. The Committee looks forward to discussing progress in these areas following the Executive Board's 2004 biennial review of surveillance.

The Committee emphasizes that it is particularly important that surveillance focus on identifying potential problems early and provide candid advice on policy reforms. In this respect, committee members identified a number of key issues for the coming year, including progress on structural reform and on medium-term sustainable fiscal frameworks; reducing balance sheet vulnerabilities, including currency mismatches, and improving debt sustainability; and encouraging policy measures to reduce global imbalances.

The Committee underscores the importance of increased transparency and candor of the IMF's advice to members. It notes the Executive Board's recent agreement on a policy of voluntary but presumed publication of IMF Article IV reports and program documents, and the enhanced provisions for exceptional access.

The Committee emphasizes its support for ways to achieve some of the objectives of the Contingent Credit Lines, intended to reduce vulnerabilities and provide precautionary support for members with strong policies in dealing with external financial developments. It looks forward to further work in this area.

The Committee welcomes the progress in strengthening the framework for crisis resolution, especially the inclusion by an increasing number of countries of collective action clauses in their international sovereign bonds and encourages their use on a voluntary basis by other countries. It also calls on the IMF to promote the voluntary inclusion of collective action clauses. The Committee looks forward to the efforts led by sovereign debtors and private creditors to develop a voluntary code of conduct and encourages the IMF to continue to contribute to this work.
It looks forward to the ongoing work on issues of general relevance to the orderly resolution of financial crises, including transparency and disclosure, aggregation, and intercreditor equity. The Committee looks forward to a report on progress at its next meeting.

Accelerating poverty reduction and improving growth in low-income countries

The Committee stresses that the IMF, in close cooperation with the World Bank, has an important role to play in helping low-income countries achieve high and sustained growth and poverty reduction. It agrees that this support should be firmly aligned behind poverty reduction strategy papers and that the IMF should work in its core areas of competence alongside the World Bank in support of the Millennium Development Goals. The IMF needs to remain engaged with low-income countries over the long term through well-targeted technical assistance, capacity building, surveillance, and, when warranted, temporary financial assistance. The Committee looks forward to reviewing Bank–IMF collaboration in that area at its next meeting.

The Committee emphasizes the importance of initiatives to enhance the IMF's support for low-income countries, including ensuring that macroeconomic policy frameworks support higher and sustained growth and poverty reduction; improving governance and strengthening institutions to support growth and private sector development; reducing vulnerability to shocks; and helping countries move beyond sustained reliance on IMF financial arrangements when ready. The Committee underscores the importance of technical assistance and looks forward to work on adapting IMF instruments and reviewing financing under the Poverty Reduction and Growth Facility. The Committee looks forward to a comprehensive review of progress at its next meeting.

The Committee emphasizes the urgent need to enhance market access and to increase the level and effectiveness of donor resources for low-income countries. To help achieve the Millennium Development Goals, the Committee calls upon the IMF to cooperate with the World Bank in working on aid effectiveness, absorptive capacity, and results-based measurement mechanisms and in examining the merits of various policy options and financing mechanisms, such as an international financing facility, to mobilize the substantial additional resources that are needed over the medium term. Developing and emerging market countries should also be closely involved. The Committee looks forward to a report by the next Annual Meetings.

The Committee notes the progress in providing debt relief to the world's poorest countries under the enhanced Heavily Indebted Poor Countries Initiative. It calls on the IMF, in collaboration with the World Bank, to develop strategies to help countries implement the necessary policies and reforms to reach decision and completion points as quickly as possible, and achieve a lasting exit from unsustainable debt. The Committee urges all creditors that have not yet done so to deliver debt relief in full and invites the IMF to report on the compliance of countries. It recognizes the importance of providing topping up as appropriate, and of the ongoing discussions on the topping-up methodology and the financial implications.

Other issues

The Committee stresses that the IMF's effectiveness as a cooperative institution depends on all members having an appropriate voice and representation. The Committee welcomes the measures being taken to improve the capacity of developing and transition countries to participate more effectively in IMF policy formulation and decision making. It welcomes the IMF Executive Board's progress report on quotas, representation, and voice and asks the IMF to examine these issues further, and will review progress at its next meeting. The Committee recommends completion of the ratification of the Fourth Amendment.

Zhou Xiaochuan, left, Governor of the People's Bank of China, with IMF Managing Director Horst Köhler.

The Committee welcomes the further actions taken by the international community to combat money laundering and the financing of terrorism, and the progress with the 12-month pilot program of assessments to combat money laundering and the financing of terrorism. The Committee is encouraged by the continued close cooperation among the IMF, the World Bank, the Financial Action Task Force (FATF), and FATF-style regional bodies, and by increased country involvement and supports the enhanced delivery of critically needed technical assistance. The Committee encourages all members to adopt laws combating money laundering and the financing of terrorism and practices consistent with the agreed international standards, and looks forward to a full report at the conclusion of the pilot program.

Malaysian Finance Minister Jamaludin Mohd Jarjis, left, with Mohammed Khirbash, the U.A.E. Minister of State for Finance and Industry.

The Committee welcomes the work of the Independent Evaluation Office and its role in enhancing the learning culture, effectiveness, and accountability of the IMF. It emphasizes the importance of the IMF's taking forward the work on prolonged use, capital account crises, and fiscal adjustment, in the light of the Independent Evaluation Office's recommendations.

The Committee expresses its appreciation of the work of Shigemitsu Sugisaki as IMF Deputy Managing Director and Kenneth Rogoff as Economic Counsellor. ■

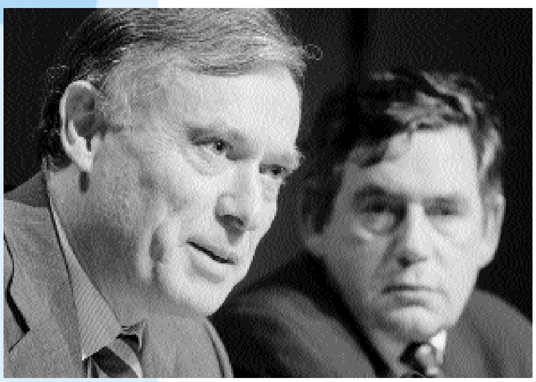
The next meeting of the IMFC will be held in Washington, D.C., on April 24, 2004.

IMFC press conference

Brown urges world not to submit to protectionists or defeatists

On September 21, International Monetary and Financial Committee (IMFC) Chair Gordon Brown and IMF Managing Director Horst Köhler briefed the press at the conclusion of the committee's discussions. They highlighted a renewed commitment to multilateralism and noted rising optimism about the world economy (colored by an acute awareness that global imbalances need to be redressed). The committee also achieved consensus on the need to reinvigorate multilateral trade negotiations, achieve sustainable debt in low-income countries, provide added momentum to the efforts to attain the Millennium Development Goals, and help Iraq rebuild.

The Governors' discussions, Brown noted in opening remarks, reflected both a shared belief that the world economy is strengthening and a keen sense that now is the time for each country and continent to step up and meet its responsibilities to ensure higher growth. The meeting emphasized the vital importance of pursuing key structural reforms and called on Europe to accelerate and deepen progress on its reform agenda, on Japan to continue strengthening its banking and financial sector, and on the United States to focus its fiscal policy on strengthening sustainability over the medium term. In this context, Köhler stressed that a "multilateral spirit" would be essential to the task of strengthening growth outside the United States and to achieving more flexibility in exchange rates—two actions that he stressed would be needed to resolve, in an orderly fashion, the current imbalances in the global economy.



IMF Managing Director Horst Köhler, left, makes a point at the IMFC press conference as Gordon Brown, U.K. Chancellor of the Exchequer and IMFC Chair looks on.

Trade matters

With the IMFC meeting taking place in the immediate aftermath of the collapsed Cancún talks, the status of multilateral trade negotiations became an urgent concern. Despite the disappointment over Cancún, there was determination, Brown noted, "that the world should not submit either to protectionists or to defeatists." The meeting reaffirmed the importance of a full political commitment to a multilateral, rules-based approach to trade liberalization and called for a speedy resumption of the Doha Round, which, Brown emphasized, was "vital for stronger global growth and for our development objectives."

To underscore the importance it placed on moving forward and of having all countries play their part, the IMFC asked the heads of the IMF and the World Bank to prepare a report on the critical role that trade plays in the development agenda and the need to move speedily to resume trade talks and complete the Doha Round. The IMFC also requested that this report be sent, with a letter from the heads of the two organizations, to all heads of state and trade and finance ministers.

This letter, Köhler explained to reporters, would have a twofold purpose. It would reiterate the well-known benefits of liberalizing trade for poor and advanced countries alike but would also place these benefits in a broader context, including the contribution that a trade agreement could make to the achievement of the Millennium Development Goals. Trade negotiations are not just a matter of technical arguments, Köhler said; they are also a matter of "effective leadership."

The Committee also asked the IMF to make its facilities available to help countries as they adjusted to a more liberal trade regime. Did this mean, one reporter asked, IMF support for French farmers? No, Brown explained. This assistance would be targeted to developing and emerging market countries to help them cope with trade-related problems. It was hoped that with concerns such as these addressed, the focus would shift back to trade-distorting subsidies, notably in agriculture, and that this renewed focus would give impetus to compromises by all concerned. The finance ministers remained optimistic, Brown noted, that "progress could be made."

The rich and the poor

The IMFC was also determined, Brown said, to show that "economic change round the world need not impoverish millions of people, but can enrich even the poorest communities." The meeting

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

specifically requested an IMF report on gaps in the provision of debt relief and asked the organization to cooperate with the World Bank in examining aid effectiveness, absorptive capacity, and results-based measurement mechanisms. The IMF was also asked to explore, in conjunction with the World Bank, the various policy options and financing mechanisms that could help achieve the Millennium Development Goals.

On terrorism and Iraq

The committee heard progress reports on efforts to root out the financing of terrorism. The IMFC reiterated that "there is no hiding place, no safe haven for those who finance terrorism" and urged countries to seek out IMF technical assistance to implement the laws that are needed to accomplish this task.

With regard to Iraq's reconstruction and redevelopment, Brown indicated that the IMFC was unanimous in wanting to see these efforts move ahead. In this context, the IMFC "reaffirmed its support for a multilateral effort" and for the IMF's "providing, subject to its policies, financial and other assistance to Iraq." Asked to comment on reports of a possible crisis of funding Iraq and on the possible outcome of the upcoming donors conference in Madrid, Brown noted a forthcoming needs assessment that the World Bank, the IMF, and the United Nations were compiling and indicated that it would be up to the donors conference to reach specific financing decisions.

In the same boat

Whether the topic was helping Iraq rebuild, ensuring sustainable debt in low-income countries, making more rapid progress toward the Millennium Development Goals, or seeking more balanced growth, the committee's deliberations made clear that these problems had international ramifications and that multilateral solutions were needed. More than ever, Köhler said, governors from all over the world recognized that "we are now sitting in one boat." ■

Development Committee communiqué

Ministers argue for more and better-aligned assistance, progress on trade negotiations

Following is the full text of the Development Committee communiqué issued on September 22 in Dubai.

At our last meeting, we strongly reaffirmed our commitment to achieve the Millennium Development Goals (MDGs) set out in the UN Millennium Declaration, endorsed by heads of state or government in the UN General Assembly on September 8, 2000, and, in particular, our commitment to the global effort needed to reduce poverty. Today, we renewed that commitment and continued our work on implementing the strategies, partnerships, and actions agreed in Doha, Monterrey, and Johannesburg.

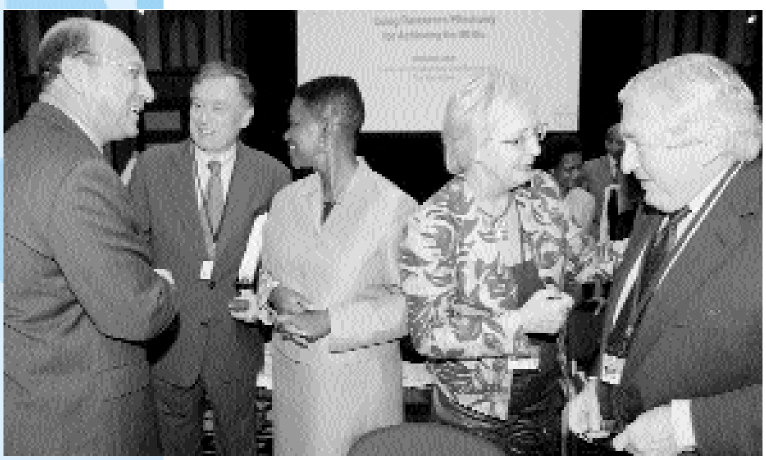
We welcomed the paper "Supporting Sound Policies with Adequate and Appropriate Financing" and its country-based approach. We agreed that there was an urgent need to scale up efforts if the MDGs are to be met and that this would require enhanced, concerted actions on the parts of both developing and developed countries and the international institutions. Developing countries will have to sustain their efforts to strengthen policies and governance so as to ensure that domestic resources, private inflows, and aid can be used effectively in spurring growth, improving service delivery, and reducing poverty. Developed countries will need to move vigorously in supporting these efforts with more and better aid, debt relief, and improved market access.

To implement this partnership to meet the MDGs, systematic efforts will be needed to achieve greater synergies between poverty-reduction strategies and longer-term MDG targets, specify and implement the actions needed to accelerate progress on the MDGs, and identify the volumes and forms of financing needed to implement agreed strategies. We agreed that ensuring adequate, timely, and more predictable financing and enhancing aid absorptive capacity through policy and institutional reforms would both be critical to the virtuous cycle of actions needed to meet the MDGs. We urge that countries, without delay, take specific steps to meet their commitments to provide additional aid resources by 2006. Furthermore, we call upon the Bank, working with the IMF, to examine the merits of various policy options, such as an international financing facility, to mobilize the substantial additional resources that are needed over the medium term and can be effectively used to achieve development results and to scale up progress toward the

Trevor Manuel, Chair of the Development Committee and South African Finance Minister.

MDGs. Developing and emerging market countries should also be consulted closely. We asked the Bank to report to us at our spring 2004 meeting.

Changes are also needed in the way that aid is provided, as highlighted in the Declaration of the Rome High-Level Forum on Harmonization. In addition to streamlining procedures and lowering transaction costs, assistance will have to be better aligned to country need, country priorities and processes, to countries that demonstrate the ability to achieve measurable development results, and to support the development of countries' capacity. Commitments should also be predictable



From left to right: Trevor Manuel, Chair of the Development Committee; IMF Managing Director Horst Köhler; Valerie Amos, U.K. Secretary of State for International Development; Agnes Van Ardenne, Dutch Minister for Development Cooperation; and World Bank President James Wolfensohn.

and long term; provided in a form that can meet cash requirements to achieve the MDGs; and in appropriate country circumstances, especially in view of long-term debt sustainability, more of it should be provided in grants and, where conditions warrant, in ways that can finance recurrent costs.

We continue to believe that a successful conclusion to the Doha Development Agenda is vital to growth, poverty reduction, and progress in attaining the MDGs. We therefore regret the temporary setback to multilateral trade negotiations at the WTO's Fifth Ministerial Conference and urge all participants to capitalize on progress to date and put the process back on track as soon as possible. We welcome the Bank and the IMF's recent pledge to support countries to benefit fully from a more liberalized trading system. We also urge continued efforts to tailor Bank lending activities to support country-owned trade initiatives, translating analysis and diagnostics into meaningful operations.

As called for at Monterrey, we have continued our consideration of innovative and pragmatic ways to enhance the voice and effective participation of developing and transition countries in the work and decision making of the Bank and the IMF. There is no single approach to accomplish this, but rather action is required over time across a range of issues. The development of the poverty reduction strategy paper [PRSP] approach represents a step toward ensuring responsiveness by the Bretton Woods institutions to country-owned strategies and priorities. In this context, we also welcome ongoing efforts to promote greater openness and transparency, decentralization, and staff diversity in all its dimensions. We urge the Bank and the IMF to step up these efforts.

We welcomed the further progress by Directors on measures to enhance capacity in developing and transition countries' Executive Directors' offices and in their capitals. We also welcomed the proposed Analytical Trust Fund for use by Executive Directors representing sub-Saharan African countries in undertaking independent research and analysis on development issues. We called for further work on additional capacity-enhancing measures, including secondments. We look forward to concrete action by our spring meeting.

The IDA [International Development Agency]-13 Mid-Term Review and IDA-14 negotiations provide a timely opportunity to enhance borrower participation in the IDA replenishment process and its Board's decision making. We noted that by taking up their full IDA subscriptions, developing countries could significantly increase their aggregate voting share, and we encouraged these countries to take the necessary actions in this regard. We urged further consideration and progress on all these issues.

We noted that the complexities involved in changing the voting structure and composition of the Boards will require time and effort to arrive at the necessary political consensus. However, we recognized the need to continue our efforts on these issues. We asked the Boards of Executive Directors to report back to us on all aspects of the voice issue at the 2004 Annual Meetings. A road map on procedures and next steps will be considered at our spring meeting.

We reviewed the status of the Heavily Indebted Poor Countries (HIPC) Initiative and reconfirmed our commitment to its objectives, full financing, and implementation. We also recalled that within existing guidelines, additional relief can be provided at the completion point, on a case-by-case basis, and noted ongoing discussions about the topping-up methodology and requested further work on this issue. Some HIPCs face a continued challenge to reach the decision point, and we encouraged ongoing efforts by staff in this area, including application of the approach contained in the World Bank Task Force Report on Low-Income Countries Under Stress. We recalled the importance of full creditor participation and again urged all official and commercial creditors that have not yet done so to participate in the HIPC Initiative and welcomed the recent decisions by some non–Paris Club creditors

(India and Libya). We look forward to a report being prepared by the staff of the Bank and the IMF on a forward-looking framework for debt sustainability in low-income countries and to reviewing the report at our next meeting. We also encouraged further work by the Bank and the IMF on ways to help reduce the vulnerability of these countries to exogenous shocks, including commodity market and weather-related shocks.

We are encouraged by the continuing progress under the PRSP approach. We welcome the increasing openness of policy dialogue with all stakeholders, improved focus on sources of growth and the investment climate and on policies needed to reduce poverty and achieve the MDGs, greater realism and better prioritization, increased propoor public spending, and efforts to strengthen public expenditure management and better integrate expenditure proposals into national budgets. At the same time, we recognized that PRSPs are charged with multiple and sometimes competing objectives, and the challenge now is to achieve successful implementation, including through much more effective donor alignment and harmonization around national strategies. We also asked the Bank and the IMF to respond to requests for assistance from countries undertaking Poverty and Social Impact Analyses and developing alternative scenarios to meet the MDGs, where appropriate.

We stressed the need for accelerating progress and results on service delivery MDGs, including through the Education for All Fast Track Initiative. We asked the Bank to report on progress on funding and lessons from the implementation of the Fast Track Initiative at our next meeting.

We supported the Bank Group's renewed focus on infrastructure, in light of the important contribution infrastructure makes to sustainable economic growth and reaching the MDGs by improving the investment climate and supporting the development requirements of low- and middle-income countries. We welcomed the report on the infrastructure action plan, as well as the follow-up to the recommendations of the World Panel on Financing Water Infrastructure, and asked the Bank Group to work with member countries to secure its early implementation within their development strategies. In particular, we noted the importance of scaling up investments within a comprehensive development approach and the catalytic role international financial institutions can play in this regard. We stressed that the right policy environment and institutional and maintenance capacity are crucial for ensuring sustainable infrastructure investments. We are pleased the Bank Group has intensified efforts to build on its international comparative advantage, expertise, and established policies by investing in infrastructure projects, supported by country diagnostic work. We also urged the Bank Group to engage in cross-border investments, especially in light of the linkages to the trade agenda. We encouraged the Bank, IFC [International Finance Corporation], and MIGA [Multilateral Investment Guarantee Agency] to continue to work together on initiatives that facilitate and promote the use of joint instruments, and through work at the sub-sovereign level and via guarantees. Finally, we noted that an implementation progress update would be provided to Bank Executive Directors before our next meeting, and we will return to this issue at a future meeting.

Progress in all areas we discussed and in others is critical to achieving the MDGs and related development outcomes. We therefore welcomed the implementation report for the global monitoring of policies and actions for achieving the MDGs, which will allow the Committee to maintain a strategic overview on progress on key issues and priorities in the policy agenda and to reinforce accountabilities. We look forward to the first full report at our next meeting.

Finally, we noted the current difficulties in the region in which we met. We welcomed the active role of the World Bank in helping meet the urgent economic and social needs of the Palestinian people of the West Bank and Gaza. We also welcomed its role in promoting economic and infrastructure cooperation in the region. We noted the constructive role played by the Bretton Woods institutions, in cooperation with other international organizations, in positioning themselves to work closely with the people of Iraq in the task of reconstruction and development toward a future that will enable them to achieve their economic potential under their own leadership. We look forward to the forthcoming donors conference on Iraq, which will play a critical role in mobilizing resources adequate to placing Iraq on the path of economic recovery. Success both in the West Bank and Gaza and in Iraq, while challenging, is nonetheless essential to stability and development in the region and beyond.

We wish to thank the authorities and people of the United Arab Emirates for their excellent hospitality and facilities. We welcome confirmation of Trevor Manuel, Minister of Finance of South Africa, for an additional term as Chair.

The next meeting of the Development Committee will be held in Washington, D.C., on April 25, 2004.

Indian Finance Secretary Dinesh Gupta, left, greets Zembei Mizoguchi, Japanese Vice Minister of Finance for International Affairs, at the start of the World Bank's Development Committee meeting.

DUBAI 2003
UNITED ARAB EMIRATES
ANNUAL MEETINGS
BOARDS OF GOVERNORS
WORLD BANK GROUP
INTERNATIONAL MONETARY FUND

Group of Seven communiqué

Top priority of major industrial countries is to raise productivity and employment

Following is the statement issued by the Group of Seven finance ministers and central bank governors at the conclusion of their meeting on September 20.

Recent data indicate that a global recovery is under way. Equity markets have rebounded, confidence has increased, financial conditions have improved, oil prices are expected to remain stable, and inflation is under control.

Macroeconomic policies should continue to support the recovery while ensuring medium-term fiscal sustainability. However, for growth to strengthen, be sustained, and be less unbalanced, structural reforms must be accelerated. We support the progress made to reform tax and regulatory regimes, labor markets, and pension systems. Further efforts are needed. Our top priority is to raise productivity and employment. We will do our part in further reforms as set out in the attached agenda for growth.

U.K. Chancellor of the Exchequer Gordon Brown, left, chats with Alan Greenspan, Chairman of the U.S. Federal Reserve Board.

We reiterate the importance of a rules-based and multilateral approach to trade. We are disappointed at the breakdown of trade negotiations in Cancún and urge a speedy resumption of the Doha Round, which is vital for global growth and the alleviation of world poverty. We believe that the immediate blockages can be removed and, with an effort on all sides, agreement reached on the remaining issues. We welcome the international financial institutions' proposed assistance for countries dealing with the transition to a more open trading system.

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

Effective and persuasive IMF surveillance is crucial. Even in current favorable conditions, the IMF should identify vulnerabilities, in particular currency mismatches, and provide candid advice on policy reforms. We welcome the agreement to publish exceptional access reports. We welcome the increasingly widespread use of collective action clauses in foreign sovereign bond issues. We look forward to further work on the code of conduct, which will be discussed at the Group of 20 meeting in October.

We encourage emerging market countries to pursue sound policies and to enhance their investment climate. This will help attract investment flows, reduce external vulnerabilities, and support sustained growth. We welcome the progress Brazil and Turkey have made in implementing structural reforms and support further efforts. We welcome today's agreement between Argentina and the IMF. The implementation of the program will be key to restoring strong and long-lasting economic growth and the investment climate. We look forward to a speedy agreement with private creditors ensuring fair treatment.

We remain committed to transparency and effective exchange of information between countries as vital weapons in the fight against money laundering and tax evasion. We strongly urge those OECD [Organization for Economic Cooperation and Development] countries that have not taken necessary steps—in particular, in allowing access to bank information—to do so as soon as possible.

We welcome the work of the Financial Stability Forum—in particular in audits, financial analysis, credit risk transfers, reinsurance, and rating agencies—and encourage it to continue strengthening cooperation in these areas.

We reaffirm our commitment to fighting global poverty and helping developing countries achieve the international development goals of the Millennium Declaration. In this respect, we discussed financing issues and results-based measurement. We asked the IMF and the World Bank to do further work on aid effectiveness, absorption capacity, financing facilities, and results-based measurement mechanisms and to report at the Annual Meetings in September 2004. We welcome the views of developing and emerging market countries on these issues.

We reaffirm our strong commitment to completing the Heavily Indebted Poor Countries Initiative. We urge all bilateral creditors to join with us in canceling 100 percent of their eligible claims. We ask the international financial institutions to review the methodology for calculating the amount of "topping up" debt relief. We look forward to the outcome of the international financial institutions' work on low-income countries' vulnerabilities to exogenous shocks.

Since September 11, 2001, we have made significant progress in the fight against terrorist financing, although much remains to be done. We look forward to the IMF and the World Bank's making terrorist financing and money laundering assessments a permanent part of their work. We have intensified the dialogue with several non–Group of Seven countries to prevent abuse of nonprofit organizations and alternative remittance systems. We seek to eliminate terrorist financing through the implementation of measures in accordance with the FATF [Financial Action Task Force]-8 special recommendations.

We welcome both the Afghan donors meetings this month and the upcoming Iraq donors conference. We reaffirm our support for a multilateral effort to help rebuild and develop Iraq, based on a needs assessment led by the World Bank, at the donors conference in Madrid next month. We support the IMF and the World Bank's rapidly providing, subject to their policies, financial and other assistance to Iraq and call upon regional financial institutions to do likewise. We call upon the Paris Club to make its best effort to complete the restructuring of Iraq's debt before the end of 2004. We urge all non–Paris Club creditors to cooperate. ■

Bank of England Governor Mervyn King, left, chats with Jean-Pierre Jouyet, head of the French Treasury, center, and IMF Managing Director Horst Köhler.

Agenda for growth

We, the G-7 [Group of Seven] finance ministers and central bank governors, have today agreed on an agenda for growth. This agenda follows the successful cooperative approach of our two recent G-7 action plans—the October 2001 Action Plan on Terrorist Financing and the April 2002 Action Plan on Emerging Markets—in which we defined objectives and then reported on progress toward those objectives at subsequent meetings.

Higher growth is essential to raise incomes and create more jobs. Without higher growth, we will not have the resources to deal with an aging society, provide adequate national security, or, more generally, provide the means for people to pursue a more enjoyable life for themselves and their children. Moreover, higher economic growth in the G-7 countries is one of the most effective ways we can reduce poverty around the world. Higher economic growth throughout the Group of Seven will redress global imbalances that arise from, among other things, uneven growth within the G-7 countries. Economic growth has been too low for too long in the G-7, and, while there are notable recent policy changes, it is time to bolster our efforts.

Key objectives. The reasons for low growth differ from country to country. But as shorter-term demand-side problems are addressed and the global recovery proceeds, longer-term supply-side impediments to higher productivity growth and employment are being revealed in many countries. Our key objectives, therefore, are on the supply side—structural policies that increase flexibility and raise productivity growth and employment.

What have we done recently? Progress achieved so far provides a good foundation to build on. Examples, one for each country, include reductions in marginal tax rates on dividends and capital gains in the United States; improved incentives to work in the United Kingdom; sustainability of the public pension system along with higher limits on savings in private retirement plans in Canada; pension reform in France; tax reform in Germany; flexibility in labor contracts in Italy; and a new research and development tax credit in Japan.

What more will we do? Each of our governments intends to pursue additional pro-growth policies. Examples include tort reform in the United States; a reform agenda 2010 for the labor market and pension system in Germany; public sector reform and further steps in health care reform in France; pension reform in Italy; Basic Policy for Economic and Fiscal Management and Structural Reform 2003 in Japan; measures to improve skills and labor force productivity in the United Kingdom; and full implementation of the five-year tax reduction plan announced in 2000 in Canada. In the European Union, investment needs to be revitalized, with a particular emphasis on infrastructure and research and development.

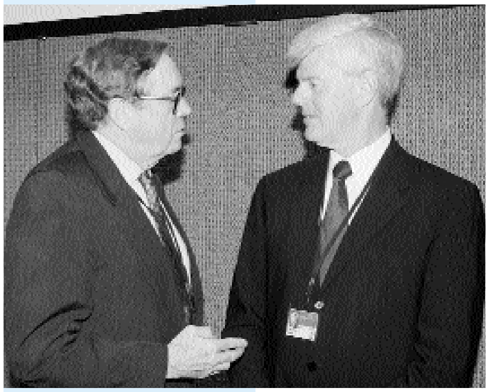
Why do this as a group? These are primarily national responsibilities, but there are spillovers. Higher growth in the United States benefits the other G-7 countries, but higher growth in the other G-7 countries benefits the United States too. Moreover, many pro-growth policies, such as trade liberalization, involve all of us. Working as a group, we intend to do regular supply-side surveillance and benchmarking proposals and to review results. This will complement our ongoing demand-side surveillance and mutually encourage progress toward pro-growth policies.

Group of 10 communiqué

Ministers call for fiscal rectitude

Following is the text of the communiqué issued by the finance ministers and central bank governors of the Group of 10 on September 21.

The finance ministers and central bank governors of the countries of the Group of 10 (G-10) met in Dubai, United Arab Emirates, on September 21. John Manley, Deputy Prime Minister and Minister of Finance of Canada and current head of the G-10, chaired the meeting. Ministers and governors took note of reports from Sir Andrew Large, Chair of the Deputies of the G-10; John Taylor, Chair of Working Party No. 3 of the Organization for Economic Cooperation and Development; and Malcolm Knight, General Manager of the Bank for International Settlements.



Donald Johnston, left, Secretary General of the Organization for Economic Cooperation and Development, speaks with John Manley, Canadian Finance Minister.

Ministers and governors discussed the general economic climate and key challenges facing the G-10 economies. They welcomed the recent prospects of improvement in the overall economic outlook, including the acceleration of activity in the United States and Japan and the reforms being implemented in Europe. They agreed that supportive macroeconomic policy measures are contributing to a recovery. However, they noted that some risks remain. Ministers and governors discussed the significant internal and external imbalances that persist and that could weigh on the sustainability of the recovery. They underscored the need for fiscal consolidation as the recovery takes hold to cope with the mounting fiscal pressures associated with population aging. They also stressed the need for continued progress on structural reform to raise potential growth, enhance economies' resilience to possible shocks, and contribute to the unwinding of global imbalances.

Ministers and governors welcomed the increasingly widespread use of collective action clauses in international sovereign bond issues. In this context, they noted the significant role that had been played by the Group of 10 Working Group on Contractual Clauses, via both its report and its consultations with issuers and market participants on the content and impact of collective action clauses. They looked forward to the inclusion of such clauses as a standard feature of bond issues in all major legal jurisdictions as an important element of the debt resolution framework.

Treasury Secretary John Snow of the United States was elected Chair of the Group of 10 for the coming year. ■

Group of 24 communiqué

Rich countries should live up to commitments

Following is the text of the communiqué issued by the finance ministers and central bank governors of the Intergovernmental Group of 24 on International Monetary Affairs and Development on September 20.

Ministers of the Intergovernmental Group of 24 on International Monetary Affairs and Development held their seventieth meeting in Dubai, United Arab Emirates, on September 20. Fuad Siniora, Minister of Finance, Lebanon, was in the chair, with Senator Conrad Enill, Minister in the Ministry of Finance, Trinidad and Tobago, as First Vice-Chair, and Paul Toungui, Minister of State, Finance, Economy, Budget, and Privatization, Gabon, as Second Vice-Chair. The meeting of the ministers was preceded on September 19 by the eighty-second meeting of the deputies of the Group of 24, with Alain Bifani, Director-General, Ministry of Finance, Lebanon, as Chair.

Global economic prospects

Ministers observe that, notwithstanding the abatement of some of the uncertainties [about] the global economy, the outlook continues to be subject to important risks, owing to the persistent global imbalances, the slow pace of economic recovery, and the limited progress in addressing structural problems in major advanced economies. They consider that the continued heavy dependence on the United States for global growth and the large current account imbalances among the major regions create the risk of disorderly currency movements and a resurgence of protectionist pressures.

Ministers encourage the U.S. authorities to develop a medium-term framework to reverse the deterioration in the U.S. fiscal accounts. They consider that stronger fiscal and monetary stimulus measures in Europe would contribute to world recovery, while structural adjustments remain the key to better medium-term performance. While recognizing the tentative signs of recovery in Japan, ministers consider that stronger efforts are needed to overcome the weaknesses of the financial sector and restore public finance sustainability. They note that progress toward macroeconomic stability and growth-oriented policies have enabled developing countries, particularly those in Asia, to contribute to sustaining world economic activity.

Ministers reiterate their call to strengthen international cooperative efforts to effectively address macroeconomic imbalances and strengthen the short- and medium-term global growth prospects. This could be achieved through ensuring a stable international economic and financial environment; scaling up assistance toward the achievement of the Millennium Development Goals (MDGs); and making substantial progress in the WTO [World Trade Organization] Doha Round. All countries and groups of countries meeting in Dubai this week must reaffirm their commitment to the shared economic and development goals and to the actions necessary to achieve them.

Ministers welcome the opportunity to meet for the first time in the Arab region. They note the achievements and resilience of the Arab countries in the face of regional uncertainties while recognizing the need for further reforms. Ministers note the unstable security and economic situation in Iraq. They call on the United Nations to assume its leading role in restoring peace and addressing the rebuilding needs of the country. Ministers are encouraged by the constructive role the international financial institutions are prepared to play in the reconstruction process. They look forward to the achievement of tangible progress that is essential for the well-being of the Iraqi people and the region as a whole. Ministers call on the donor community to provide the necessary financing for the reconstruction and rebuilding efforts in Afghanistan. Ministers reiterate their deep concern about the deteriorating security situation in the Palestinian Territories and the loss of life and systemic destruction of infrastructure and private property. They call on donors to release urgently needed funds to ease the hardship of the Palestinian people.

Trade

Ministers express grave concern about the failure of the WTO Cancún ministerial meeting, which represents a major setback to the objectives of global growth and poverty reduction. This is the result of the unwillingness of major advanced economies to remove barriers to agricultural imports and subsidies to their farm producers. Ministers stress the need for the adoption of a rules-based process for decision making in the WTO that would involve all countries. They believe that multilateral trade negotiations should be concluded within the agreed time frame. Advanced economies should respect their long-standing commitments to open their markets to developing countries, phase out subsidies in agriculture, and remove quotas and high tariffs in such areas as textiles and clothing. Ministers urge that multilateral trade negotiations resume shortly and be conducted in a manner consistent with the principle of comparative advantage and the development needs of countries.

Crisis prevention and resolution

Ministers note that successive financial crises over the past decade have underlined the risks associated with the operation of the current international financial regime. They point out that the high costs of crises fall disproportionately on developing countries, whose difficulties are made worse by negative net capital flows. Ministers call on the international financial institutions to play an effective catalytic role to promote positive capital flows to developing countries and to help mitigate these costs and risks. Among the measures that the IMF should adopt are

- making IMF surveillance over major countries' policies effective to ensure uniformity of treatment among the membership;
- supporting measures to ensure greater stability in short-term capital flows;
- redesigning and strengthening the IMF's precautionary financing facilities, including the Contingent Credit Lines; and
- encouraging countercyclical macroeconomic policies in developing countries, consistent with medium-term debt sustainability.

The shrinking size of the IMF's financial resources in relation to the world economy and financial markets, the relative decline of the quota shares of developing countries, and the shortcomings of the IMF's precautionary facilities create uncertainty regarding the provision of an appropriate IMF response to financial crises. As a result, numerous developing countries have built up their reserves to protect themselves at a high opportunity cost. Ministers call for enhancing the IMF's capacity and readiness to provide prompt and sufficient financial support, on reasonable terms, for countries that face potential financial crises.

Group of 24 finance ministers brief the press. From left to right: Ariel Buira, Director of the G-24 Secretariat; Alain Bifani, Director General of the Lebanese Ministry of Finance; G-24 Chairman Fuad Siniora; and G-24 First Vice-Chairman Senator Conrad Enill, Minister of Finance of Trinidad and Tobago.

Ministers reiterate their call for a general and substantial allocation of SDRs, which would help offset the current deflationary pressures in the world economy and reduce the cost of holding reserves. They reiterate the need for the early ratification by all members of the special, onetime allocation under the proposed Fourth Amendment.

Ministers welcome the increasing voluntary use of collective action clauses in sovereign bond contracts by both developing and advanced economies. They stress that proposals for a voluntary code of conduct to deal with debt restructuring need to be agreed by private creditors and sovereign issuers. Ministers believe that debt sustainability analyses should be based on country-specific circumstances, and they strongly caution against a mechanical reliance on benchmarks.

Support for poverty reduction in low- and middle-income countries

Ministers note that a substantial, timely, and predictable amount of additional official development assistance is needed over the short and medium terms for developing countries—particularly in sub-Saharan Africa—to meet the MDGs. They urge the donor community to raise the level of official assistance to the internationally agreed target of 0.7 percent of GNP to help developing countries meet the MDGs. The delivery of assistance must be made more flexible, and donor support must be aligned with home-grown strategies. Ministers consider that a higher proportion of official assistance to the poorest and most vulnerable countries in particular should be in the form of grants. They agree with the World Bank's assessment that substantial additional resources can be effectively used to give momentum to the attainment of the MDGs. Ministers support the formulation of new proposals to mobilize the needed additional financing.

From left: H.E. Bassary Toure, Minister of Economy and Finance, Mali; H.E. Jean Baptiste Compaore, Minister in charge of Budget and Finance, Burkina Faso; and H.E. Baltazar Engonga Edjo, Minister of Economy and Finance, Equatorial Guinea.

Ministers welcome the roles of the IMF and the World Bank in improving development outcomes and in helping to support the efforts of the international community to meet the MDGs through their facilities for debt relief, growth promotion, and poverty reduction. While recognizing that the macroeconomic situation in many low- and middle-income countries has improved, ministers urge the international community to ensure that the IMF and the World Bank have sufficient financial resources to continue their support to these countries. In particular, the medium-term lending capacity of the IMF's Poverty Reduction and Growth Facility needs to be strengthened. Ministers stress the need to provide additional technical assistance to enable low-income countries to effectively lead the formulation of their poverty reduction strategy papers. They note that, although the HIPC [Heavily Indebted Poor Countries] Initiative has contributed to reducing the debt stock of a number of low-income countries, their overall debt burden remains high. They urge that efforts be enhanced to bring more countries to decision and completion points and that debt burdens be further reduced, including by limiting debt service of the poorest countries to 5–10 percent of their exports, as proposed by some donors.

Participation of developing countries in IMF and World Bank decision making

Ministers reiterate that, to enhance the legitimacy of the IMF and the World Bank, the underrepresentation of developing countries in the decision-making processes of these institutions should be seriously and promptly addressed, as agreed in the Monterrey Consensus. They call for a timetable leading to an early completion of work toward enhancing the voting power, voice, and participation of developing countries in these institutions and for the regular reporting of progress. Ministers consider that strengthening the representation of developing countries should include a new quota formula and a quota distribution that reflect correctly the relative economic position of countries in the world economy. They consider that the position of sub-Saharan Africa should not be weakened. Also, basic votes should be substantially increased to restore their original role in relation to total voting power. While welcoming the recent administrative measures to strengthen the capacity of sub-Saharan African chairs on the Boards of the IMF and the World Bank, ministers consider that these measures cannot substitute for an increase in developing countries' voting power.

Commodities

Noting the devastating effect of commodity price shocks on developing countries, ministers call for the reform of the IMF's Compensatory Financing Facility to make it usable and ask the World Bank to develop instruments to assist countries to deal with commodity price risks. ■

The next meeting of the G-24 ministers is scheduled to take place on April 23, 2004, in Washington, D.C.

IMFSURVEY

MENA Seminar

Spotlight on the Middle East

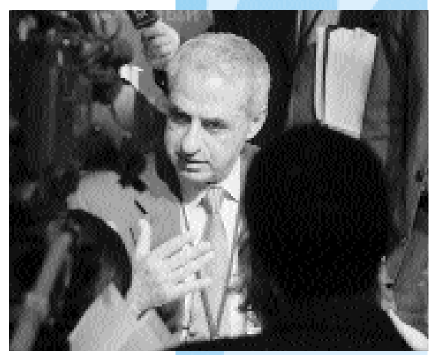
With Dubai hosting the IMF–World Bank Annual Meetings this year, the Middle East and North Africa (MENA) region has received particular attention. Its economic performance and strategies to reignite growth were the theme of a pre-meeting IMF Economic Forum (see page 285). There were also press briefings on the region's economies and on the West Bank and Gaza and Afghanistan. In addition, several seminars looked in greater detail at several high-profile issues, notably jobs for the region's burgeoning workforce, greater integration of women in the labor force, the role of oil stabilization funds, and Islamic banking.

Although the impact of the Iraqi crisis continues to dominate the news, its impact on the MENA region has not been as large as expected, said George T. Abed, Director, IMF Middle Eastern Department, at a September 18 press briefing. Most of the region's economies have weathered that storm reasonably well and continue on their growth paths, he said, adding that growth for 2003 is expected to be about 5 percent, in line with the average for developing countries as a group.

Looking beyond 2003, growth prospects for the region will depend on oil prices and the continuation of reforms, Abed observed. Of concern are projections indicating that the region will not grow at sufficiently high rates to make a dent in reducing the unemployment rate—the region's most pressing problem. Progress on this front would require real growth rates in excess of 6 percent a year on a sustained basis, and that could be achieved only through deeper reforms. According to the IMF's latest *World Economic Outlook*, there could be a substantial boost to growth if the size of governments were reduced, said David J. Robinson, Deputy Director, IMF Research Department. In some countries, he added, improvements in institutional quality were key to boosting growth.

With regard to reconstruction efforts in Iraq, Abed said that the IMF has been working closely with the Coalition Provisional Authority and with Iraqi officials to determine the areas in which the institution can be of some assistance. The IMF, as it has done in other postconflict countries such as Timor Leste and Kosovo, intends to assist the Iraqi authorities in rehabilitating and restructuring the country's financial and monetary institutions. IMF staff had been providing technical support to Iraq but, since August 19, have not undertaken field visits for security reasons. In the meantime, Abed noted, a core group of donors is expected to meet on October 23–24 to review assessments of Iraq's reconstruction needs and financial requirements.

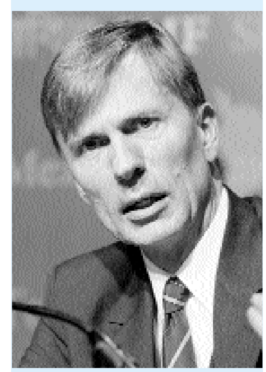
Elsewhere in the region, according to a recent IMF report on the West Bank and Gaza, the Palestinian economy has contracted by about 30 percent since the beginning of the intifada and the resumed conflict with Israel—a smaller decline than earlier believed, said Adam Bennett, former IMF mission chief for the West Bank and Gaza, at a September 20 press briefing. Security measures imposed by the Israeli government—such as closures and checkpoints—have had a negative effect on the Palestinian economy, but under the circumstances it has managed to stay relatively resilient.



George Abed, Director of the IMF's Middle Eastern Department, speaks to the press.

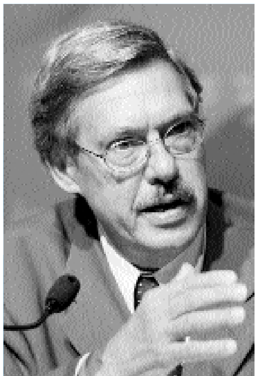
The IMF report also looked at the reform process—how deep it was, what the actual needs for reform were, and what the outstanding issues are, said Karim Nashashibi, IMF Resident Representative in the West Bank and Gaza. Reforms in the fiscal area, especially in improving transparency and accountability, have been impressive, Bennett said, but other reforms, for example, on land registration and the provision of local government services, are still needed.

At a separate press briefing on Afghanistan, Bennett told reporters that, according to a recent IMF report, the Afghan economy is estimated to have grown since the fall of the Taliban regime by about 30 percent (in the year ended March 2003). It is expected to grow by another 20 percent this fiscal year. However, he cautioned that poppy cultivation and the production of opium have become extensive and that this development is threatening the stability of the country and of its economy. He cautioned that the successful eradication of poppy cultivation could be achieved only with the simultaneous development of alternative livelihoods and with enhanced security.



Adam Bennett, Advisor in the IMF's Middle Eastern Department.

Bennett noted some important successes in Afghan reform, including the launch of a new currency (completed in January 2003) and the broad stability of its exchange rate. Inflation has been negligible since the beginning of the year, under a prudent monetary policy supported by the prohibition on government borrowing from the central bank. Fiscal reforms are also well advanced, with fiscal transparency in the forefront, and customs reform under way. Bennett also welcomed the recent passage of two key banking laws, which he hoped would underpin the recovery of the financial system in Afghanistan.



Karim Nashashibi, Senior IMF Resident Representative for West Bank and Gaza, speaks to the press.

Employment challenge

With a labor force that is projected to grow by 4 percent a year over the next several years, the MENA countries face the prospect of having to create 100 million jobs over the next 20 years. How will it do this? A seminar on the region's employment challenge focused its attention on the private sector but also sought additional innovative solutions.

Heba Handousa, Managing Director of the Economic Research Forum for Arab Countries, suggested that the region's youthful workforce could, under better work arrangements, help meet the labor shortage posed by Europe's aging workforce. Another option, she said, is to create more jobs through greater intraregional trade and investment.

Ahmed Benbitour, a lecturer at the United Nations Institute in Senegal and formerly Algeria's finance minister, argued that the region's employment problem has broader and deeper roots and would require a new pattern of development with new institutions and leadership.

The panelists and audience disagreed on a number of points, including the scope for expanding employment in small and medium-sized firms, whether population growth should be addressed through public policies, and whether the relatively large public sector should be shrunk to make room for private sector expansion.

Women in the public sphere

With a draft World Bank report as background, a panel, moderated by Asma Khadar, President of the Jordanian Women's Union and Coordinator of the Sisterhood Is Global Institute, examined gender and development in the MENA region.

Can female participation in the workforce be increased? Sheika Lubna Al-Qasimi, head of Tejari FZ-LLC, a U.A.E.-based information technology firm, believed it could and highlighted four priorities: better education; increased woman-to-woman mentoring; more women's organizations, such as business councils; and revision of laws that deliberately or accidentally disadvantage women employed outside the home.

Elaheh Koulaei, head of the Irano-Libyan Parliamentarian Friendship Group in Iran and a professor at Teheran University, pointed to progress in female school enrollment, and Abdou Filali Ansari, Director, Institute for the Study of Muslim Civilization, Aga Khan University Institute, concluded that the most important step toward new thinking on the subject is education about the secular origins of many traditional restrictions on women's roles.

A vigorous and wide-ranging discussion lent support to calls for greater representation of women in parliaments and other decision-making bodies; increased recognition of, and support for, the valuable contributions women make in cottage industries and the home; and the importance of stopping the abuse of women, notably sexual harassment at the workplace. There was general agreement that Islam gives equal rights to women, but the region's laws and regulations now need to be thoroughly revised to root out discrimination.

Fiscal management and oil revenues

Oil-rich countries often resort to stabilization funds to help them cope with volatile revenues. These funds can play a significant role in government finances and can underwrite important policy initiatives. In a panel on fiscal management of oil resources, Mohammad Mojarrad, Vice Governor of the Central Bank of Iran, noted that Iran devotes one-half of its oil stabilization fund income to promoting private sector projects and implementing reform programs.

But how should these funds be designed, and are stabilization funds appropriate for all economic circumstances? Panelist Rodrigo O. Valdés, Chief Economist of the Central Bank of Chile, looked at the country's experience with a stabilization fund for copper revenue. Chile has very specific rules for adding and releasing money from its fund to the general budget. These rules are linked to estimates of a normal or reference price for copper and to assumptions about potential GDP output and anticipated inflation. The emphasis, he said, was on prudential savings of volatile copper revenue rather than on current consumption. While it is generally desirable to spend less than the annuity value of an exhaustible resource like oil or copper, a country expecting strong non-oil growth in the future, for example, might choose to spend more now in order not to disadvantage the present generation.

Ismaila Usman, an IMF Executive Director representing a constituency of 21 African countries, reflected on the particular difficulties that low-income countries, notably those with low absorptive capacity and limited budget management expertise, encounter in managing oil revenue. For these countries, he said, creating assets, including human capacity, and developing infrastructure are more vital than "saving for a rainy day." He also noted that Nigeria's complex revenue-sharing policy, for example, limits the scope for revenue stabilization.

In the discussion that followed the panel presentations, Karin Lissakers, a former IMF Executive Director for the United States, currently working with the Soros Foundation, urged countries to adopt laws requiring disclosure of oil contracts and revenues. Such disclosure, she said, could increase public understanding of the merits of stabilization funds and other measures intended to manage oil income responsibly. And in response to a question about the role that exchange rate regimes could play, Mojarrad said there was probably no single regime that would be right for all countries, but he considered a flexible rate preferable for large oil-producing countries.

Islamic banking

Should Islamic financial institutions be integrated into the international regulatory and supervisory architecture, or is a special framework needed in light of their distinct structure and operations? This question was the main topic at a seminar on Islamic finance.

Andrew Cunningham, Senior Vice President, Moody's Investor Service, saw integration of Islamic financial institutions as both desirable and feasible. He stressed that Islamic financial institutions have an interest in such integration, given their small share in the global banking sector: although growing at a rapid pace, at $360 billion, the total assets of Islamic banking remain small compared with total banking assets of about $43 trillion. But the main impediment to continued rapid growth in the period ahead could be the need for distinct bank regulation and supervision. Other challenges, said Danièle Nouy, Secretary General, Basle Committee on Banking Supervision, were the limited instruments for risk management; corporate governance, including possible conflicts of interest; and the role of Sharia law and shareholders' interest. She felt that internationally accepted standards were a good starting point but also noted the role of the Islamic Financial Services Board (IFSB) in helping to meet these challenges.

Rifaat Ahmad Abdel Karim, Secretary General of the IFSB, argued that the existing global standards would not address the risks and considerations that are specific to Islamic institutions. Islamic banks, for example, keep their receivables until maturity and are not permitted to sell debt. They are therefore subject to liquidity shocks and have to maintain larger cash holdings than would otherwise be necessary. While he agreed there was no need to reinvent the wheel, regulators and supervisors would need an adequate understanding of how Islamic institutions operate. ■

IMF Economic Forum

How can the Middle East return to a high growth path?

Despite attempts to spur recovery and accelerate reforms, many countries in the Middle East and North Africa (MENA) remain on a slow growth path, effectively sidelined from globalization and the benefits of closer economic integration. How can the region reinvigorate growth and reignite the reform process? On September 9, a panel of experts—Amer Bisat (Senior Economist and Portfolio Manager, UBS Asset Management), Hani Findakly (Director, Clinton Group), Mustapha Kamel Nabli (Chief Economist and Director, Middle East/North Africa, World Bank), and Shibley Telhami (Professor, Department of Government and Politics, University of Maryland)—gathered at an IMF Economic Forum to discuss the opportunities for reform and the constraints that will need to be faced. The discussion was moderated by George T. Abed (Director, IMF Middle Eastern Department).

Although there are significant differences among the region's 24 economies, Abed said, all countries face common challenges. A number depend on oil exports to sustain development and finance budgets. Others have a legacy of centralized planning and state control. The region's economic performance has been mediocre over the past 20 years, he noted, but not all is bleak in the region. Faced, in the late 1980s, with very slow growth and some decline in per capita incomes, governments began to pursue reforms. As a result, the MENA economies moved forward in the mid- to late 1990s, but recently the reform momentum has waned.

Lagging structural reforms

Although it has implemented a number of important reforms, most notably on the macroeconomic front, the region's structural reforms, Nabli noted, have not gone deep enough. Why? First, as oil resources declined as a result of the 1980s oil price shock, the MENA economies continued to operate under soft budget constraints. This access to "easy money" allowed governments to continue to fund welfare systems but left little to finance the reforms that could create more domestic wealth.

According to Nabli, the second reason can be attributed to governance issues. Many reforms undertaken in the late 1980s and early 1990s, such as reducing tariffs, were done in a top-down, administrative fashion that made them fairly easy to implement. That explains the clear progress on macroeconomic-related structural reforms. However, more substantive efforts to reform the financial sector and create sound institutions made only limited progress. These reforms, which typically touch the interests of many groups, were hampered by inadequate systems of governance, transparency, and accountability.

The MENA region's private sector should pick up the slack and redeploy part of its capital to support the growth of small businesses.
—Hani Findakly

What does the future hold? Nabli warned that the MENA region might be in the middle of a new crisis. Tighter budget constraints, he explained, have eroded the resources available to sustain the old welfare systems. And the dramatic increase in the labor force has created high unemployment rates—about 15 percent for the region. These pressures are becoming untenable, he stressed, and need to be contained.

Private sector's role

The MENA region, according to Findakly, can be characterized as having three main dependencies. It relies on the public sector; raw materials, particularly energy oil and products; and lower-skilled activities. This last dependency, he said, explains the lack of wealth and job growth, and the real challenge is not only to employ the region's existing workforce but also to create jobs for the fast-growing workforce.

While it may not be fair to compare the MENA economies to the United States, Findakly said, a lot can be learned from the restructuring that has taken place in the United States over the past 25 years. About 52 percent of U.S. GDP is now produced by small businesses that employ 50 people or fewer. And over 50 percent of the U.S. labor force works for those small businesses. The MENA region's private sector, with its large amount of capital, should pick up the slack and redeploy part of its capital to support the growth of small businesses. This would allow the labor force to be absorbed while governments pursue other reforms.

Ready for financial globalization?

The MENA region, Bisat said, is remarkably isolated from the global capital markets. Since the mid-1990s, about $1.5 trillion in capital has flowed into developing countries, but less than 5 percent has gone to the MENA region. To find out why, Bisat talked to a number of bankers, who mentioned four main factors: a low level of economic growth; absence of a "trigger," such as privatization; lack of institutional transparency; and security concerns.

Is this isolation bad for the region? Until recently, most mainstream economists would have answered yes, but Bisat is not so sure anymore. He now feels it should come with the following warning: globalization may be hazardous to your health unless you are well prepared. Bisat cited a paper by the IMF's

Available on the web (www.imf.org)

Press Releases

03/147: IMF Approves Two-Year $600 Million Stand-By Arrangement for the Dominican Republic, August 29
03/148: IMF Managing Director Horst Köhler Statement at the Conclusion of a Visit to the People's Republic of China, September 2
03/149: Horst Köhler's Remarks in Malaysia, September 3
03/150: Declaration by the Heads of the IMF, OECD, and World Bank, September 4
03/151: IMF Completes Brazil's Fourth Review, Approves $4.1 Billion Disbursement, September 5
03/152: IMF Completes First Review of Guyana's Performance Under the PRGF Arrangement, Grants Waivers, Extends Program Period, and Approves Additional Interim HIPC Assistance, September 5
03/153: Deputy Managing Director Shigemitsu Sugisaki to Leave IMF in Early 2004, September 10
03/154: IMF Managing Director Issues Statement of Support for Argentina's New Medium-Term Program, September 10
03/155: IMF Launches Website in Arabic, September 11
03/156: IMF Completes Review Under Benin's PRGF Arrangement and Approves $3.7 Million Disbursement, September 11
03/157: IMF Completes First and Second Reviews of Mongolia's PRGF Program and Approves $11 Million Disbursement, September 12
03/158: IMF Completes Third Review of Lao PDR's PRGF-Supported Program and Approves $6 Million Credit, September 15

Public Information Notices

03/107: IMF Concludes 2002 Article IV Consultation with Liberia, September 3
03/108: IMF Concludes 2003 Article IV Consultation with Malta, September 3
03/109: IMF Concludes 2003 Article IV Consultation with the Islamic Republic of Iran, September 5
03/110: IMF Concludes 2003 Article IV Consultation with Nepal, September 5
03/111: IMF Discusses Applications of and Methodological Refinements to Assessments of Sustainability, September 5
03/112: IMF Concludes 2003 Article IV Consultation with Japan, September 5
03/113: IMF Concludes 2003 Article IV Consultation with the Czech Republic, September 5
03/114: IMF Concludes 2003 Article IV Consultation with the Republic of Lithuania, September 9
03/115: IMF Concludes 2003 Article IV Consultation with Angola, September 10

Speeches

"Globalization and Global Disinflation," Kenneth Rogoff, Economic Counsellor and Director, IMF Research Department, at a U.S. Conference on Monetary Policy and Uncertainty: Adapting to a Changing Economy, Jackson Hole, Wyoming, August 29
"Monetary Union Between Belarus and Russia: An IMF Perspective," John Odling-Smee, Director, IMF European II Department, Belarusian State Economic University (speech also available in Russian), September 2

Kenneth Rogoff and Eswar Prasad that found that if a country is not well prepared, it could be hurt by globalization.

In Bisat's view, the macroeconomic side is not yet ready for intensive capital flows, and the domestic financial sector is also ill prepared for massive inflows. The traditional recipe of domestic financial reforms—interest rate liberalization, removal of debt lending, privatization of domestic banks—is no longer sufficient to prepare the banking sector. The region will need to implement a more ambitious "second generation" of reforms in the financial sector before embarking on more intensive capital account liberalization.

Is the political will there?

While it is not difficult to come up with prescriptions as to what needs to be done in the region, the real question is how to get existing governments to adopt reform measures and change and evolve. According to Telhami, this is more of a political question than an economic one.

Are there incentives that make governments change? One external incentive is the fear of collapse. China, for example, accelerated reforms after the collapse of the Soviet Union. But in the MENA region, Telhami noted, the war in Iraq has not had the same effect because of the destruction it has entailed. At least in the short run, the war has created reservations about change. In the past, pressures from the international community, particularly the United States, have had an impact on the region, but these effects have not been long-lasting. For the moment, he said, there is no external dynamic to make governments move in the direction of reforms.

What about domestic pressures? In general, the comforts afforded by the welfare state have dampened demands for greater political participation. To the extent that this has continued, the population has been satisfied. But per capita incomes in the region have declined, generating some dislocation and rising political pressures on governments to change. In the past, governments have undertaken cosmetic changes because they viewed domestic pressures as short-term problems. The real question is whether governments will respond by implementing reforms. That, said Telhami, is hard to predict. ■

For the moment, there is no external dynamic to make governments move in the direction of reforms.
—Shibley Telhami

"Asia's Emerging Markets: A Growing Force in the World Economy," IMF Managing Director Horst Köhler, Kuala Lumpur, Malaysia, September 3
"Strengthening Growth Through Regional and Global Economic Cooperation," IMF Managing Director Horst Köhler, APEC Working Luncheon Remarks, Phuket, Thailand, September 4
Anne Krueger, IMF First Deputy Managing Director, Fifth WTO Ministerial Conference, Cancún, Mexico, September 10
Horst Köhler, Chair of the Executive Board and IMF Managing Director, Opening Remarks to the IMF Board of Governors, Annual Meetings, Dubai, September 23
Horst Köhler, Chair of the Executive Board and IMF Managing Director, Closing Remarks at the Annual Meetings of the IMF Board of Governors, Dubai, September 24

Transcripts

IMF Economic Forum, "Fulfilling a Promise: Reform Prospects in the MENA Region," September 9
Press Briefing by Thomas C. Dawson, Director, IMF External Relations Department, September 10
Conference Call on the *World Economic Outlook* with Kenneth Rogoff, Economic Counsellor and Director, IMF Research Department, September 11
Managing Director Horst Köhler's Briefing with the Press, September 12
Euro Zone Conference Call with Michael Deppler, Director, IMF European I Department, September 16
September 2003 *World Economic Outlook* Press Conference, September 18
Press Briefing on the Economic Outlook in the Middle East and North Africa, September 18
Press Conference by Managing Director Horst Köhler with First Deputy Managing Director Anne Krueger and External Relations Director Thomas C. Dawson, September 19
Press Conference on Latin America—Opening Remarks by Anoop Singh, Director, IMF Western Hemisphere Department, September 19
Press Briefing on the West Bank and Gaza, September 20
Group of 24 Press Conference, September 20
Press Conference of African Finance Ministers, September 20
Press Conference following the International Monetary and Financial Committee Meeting, September 21
Townhall Meeting with Civil Society Organizations, September 21

Communiqués

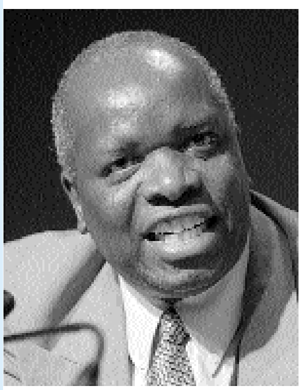
Communiqué of the Intergovernmental Group of 24 on International Monetary Affairs and Development, September 20
Communiqué of the Ministers and Governors of the Group of 10, September 21
Communiqué of the International Monetary and Financial Committee of the Board of Governors of the IMF, September 21
Development Committee Communiqué, September 22

African finance ministers' press conference

Leaders deeply disappointed over failed trade negotiations, call for level playing field in trade

On September 20, six African finance ministers briefed the press in Dubai on the main challenges facing Africa, raising, in particular, concerns about the failure at Cancún to make progress on market access. Ngozi Okonjo-Iweala (Minister of Finance for Nigeria), Michel Meva'a Meboutou (Minister of Economy and Finance for Cameroon), Ng'andu P. Magande (Minister of Finance and National Planning for Zambia), Ali Badjo Gamatie (Minister of Finance for Niger), B.R. Kukuri (Deputy Minister of Finance for Namibia), and Jean Baptiste Compaore (Minister in charge of Budget and Finance for Burkina Faso) also addressed progress on the UN's Millennium Development Goals, debt relief, poverty reduction, NEPAD, and voice and representation in the Bretton Woods institutions.

Okonjo-Iweala: "We are troubled by the failure of the Cancún negotiations."



Magande: "We want the global trade regime to change."

Compaore: "If we don't have the necessary financing to help us along our way, then the goals will be just a dream for our countries."

In the lead-up to the IMF–World Bank Annual Meetings, Africa had much on its mind. Nigeria's Okonjo-Iweala pointed to the outlook for the global economy and its implications for Africa's development, the impact of volatile commodity prices, reforms being undertaken with support from the Bretton Woods institutions, the impact of HIV/AIDS, and the concerns about the prospects for developed countries to meet the commitments they made at Monterrey and Johannesburg to enable African countries to meet the Millennium Development Goals.

But chief among the region's concerns was the lack of progress on market access, particularly on agricultural products in developed countries. The World Trade Organization's ministerial meeting in Cancún had offered Africa a forum in which to raise key issues, and Okonjo-Iweala noted, "We are troubled by the failure of the Cancún negotiations" and its implications for African trade and development.

Thanks to four West African countries—Benin, Burkina Faso, Chad, and Mali—the topic of cotton subsidies had been included as an explicit item on the Cancún agenda. West African cotton farmers are being pushed out of the world market, said Zambia's Magande, by subsidies their counterparts receive in developed countries, notably the United States. The West Africans had hoped for an end to these subsidies and to be compensated for the damage done, but the meeting ended without any such commitment.

Burkina Faso's Compaore also emphasized his disappointment and underscored the wider ramifications of the collapse of the trade negotiations. "We had intended to send a message out to the international community," he said. For countries like Burkina Faso, where over 40 percent of the population depends on cotton, if cotton is threatened,"then the very objectives that we are all trying to achieve under the Millennium Goals are going to be jeopardized."

Namibia's Kukuri seconded that sentiment, saying "I do believe that, through trade, a lot of the problems that African countries and Africa, as a continent, are facing could easily be addressed." If trade barriers could be removed, he believed, millions of jobs could be provided. He had no doubt that "full liberalization of world trade could lift at least 300 million people out of poverty by 2015." Of course, he added, "we welcome that a number of African countries are benefiting from special initiatives like the U.S. African Growth and Opportunity Act and that through that, opportunities for trade are expanding," but he cautioned that such initiatives should not undermine the conclusions of a more comprehensive and sustainable trade agreement under the Doha Round of multilateral trade negotiations.

Magande called for a level playing field in the area of trade where developing countries have an interest and a competitive advantage. "We want the global trade regime to change," he said. Referring to the Cancún breakdown, Cameroon's Meboutou said,"We are indeed disappointed, but we haven't lost hope." Africa would like to take this opportunity, he said, "to appeal to the goodwill of the international community so that these negotiations can resume and that account can be taken of our requests and our wishes. This is a question of equity, and this would be indeed helpful to international trade and development policies."

Millennium Development Goals

While the collapse of the Cancún talks cast a long shadow, there was concern, too, that more needed to be done on a wide range of fronts to make progress on the Millennium Development Goals. Participants stressed the need for continuing assistance from the international community. "Our country is making efforts toward adjustment and structural reforms to help us achieve these goals," Compaore said, "but there is still the matter of financing that needs to be settled. This is a very important issue for us, because the goals are so ambitious that if we don't have the necessary financing to help us along our way, then the goals will be just a dream for our countries." He welcomed the U.K. proposal, supported by France, of an international financing facility but said that implementation had to come quickly if Africa is not to "miss the boat."

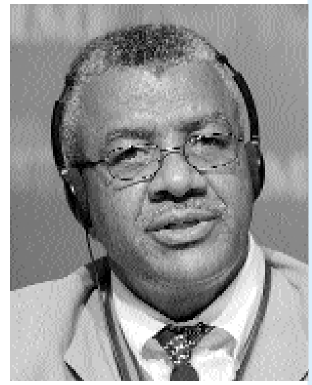
Debt relief

Slow progress on the debt front was also a concern. Many countries still labor under heavy debt burdens, Compaore said, "but even those countries that have reached the completion point under the HIPC Initiative have not yet been able to mobilize all of the resources available. The pace is rather slow, and some parties are hesitant." Reemphasizing that their own resources were not sufficient, several ministers sought assistance from the Bretton Woods institutions in helping them release the financing necessary to attain debt sustainability while, at the same time, achieving greater growth. Okonjo-Iweala added that the particular situation of non-HIPC low-income countries that have unsustainable debt deserved the full attention of the international community.

Poverty reduction and economic growth

Reducing poverty and raising growth rates remained vital and intertwined goals for the ministers. Asked about the impact of the IMF's Poverty Reduction and Growth Facility on living standards in Africa, Magande noted that this facility, along with the poverty reduction strategy papers that countries prepare in consultation with the people, have allowed Africans "to articulate their poverty but also some of the means by which they can come out of poverty." These mechanisms are also helping Africa set development priorities that are going to "move our countries forward."

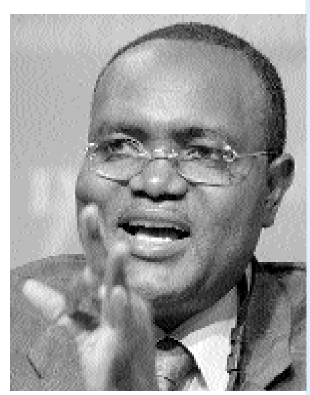
NEPAD—an initiative launched by African leaders in October 2001 outlining ambitious commitments toward the region's long-term development—calls on the region to understand that development is our responsibility but "we must understand that development is a lengthy process," Nigeria's Gamatie observed. Great effort is needed, and there are practical problems of implementation, particularly at the regional level. In this regard, enhancing the voices and representation of African countries in the Bretton Woods institutions is important to ensure that policies promoted by the two institutions are in the long-term interest of these countries, he said. Gamatie stressed that voice and representation would help harmonize the activities of the Bretton Woods institutions with regional trade and integration objectives of the NEPAD. Magande added, "we want our voice to be in these institution so that we can say the right things that are going to be done by these institutions to develop our countries."



Kukuri: "Full liberalization of world trade could lift at least 300 million people out of poverty by 2015."

One of the key objectives of NEPAD is to ensure good governance by intensifying the fight against corruption and increasing transparency. Currently in the spotlight is transparency of transactions related to natural resource extraction. Okonjo-Iweala cited her own country, oil-rich Nigeria, as a participant in the Extractive Industries Transparency Initiative launched by U.K. Prime Minister Tony Blair in September 2002. "I think that you will see more and more countries in Africa also being more open and taking part in this initiative," she said. At the same time, she hoped that, as African countries develop their capacity to manage their accounts with assistance from Bretton Woods institutions, international oil companies would also pledge to be equally open and transparent. ■

Meboutou: "We are indeed disappointed, but we haven't lost hope."



Gamatie: "We must understand that development is a lengthy process."

Japanese banks need to boost profitability

(Continued from front page) banks, dealing with bad loans one by one.

IMF SURVEY: Japan's economy has some fairly unusual characteristics—zero interest rates, for example—that must have played a part in your findings.
INGVES: Japan's financial sector is dominated by banks and heavily influenced by the public sector, with several very large government-owned financial institutions. The basic structure is not unlike that established in many industrial countries after World War II. But this structure remained in place longer in Japan than in most industrial countries. Then the country experienced a bubble, followed by low or negative growth. That created a special environment. The lower the growth in the economy, the harder it is to deal with the problems in the banking sector. In any country where the economy is shrinking, nonperforming loans can become a problem.

What is unique in Japan is that nominal interest rates are very low. These low rates are necessary to counter deflation and preserve financial stability. As a side effect, they may make it more difficult to determine bad loans because weak borrowers, whose repayment capacity is in doubt, can keep servicing their debt. What we saw when we did our assessment was a financial structure that now has to generate structural change in a difficult environment.

IMF SURVEY: In terms of Japan's banking sector, then, were you in uncharted waters?
INGVES: When you are talking about how to deal with banks in trouble, the toolbox available is familiar. These techniques have been tried in many countries all over the world. They work in countries where the government can still finance support of the financial sector, which is the case of Japan.

IMF SURVEY: Was there anything in the course of Japan's FSAP that surprised you?
INGVES: There is always something that you did not entirely anticipate. In Japan, we discovered that the insurance supervisor had practically no actuaries on its staff. This is one of the largest insurance sectors in the world. We discussed this with the authorities, and now they have hired more actuaries. It's nice to see these details resolved. That is an important part of the FSAP process.

IMF SURVEY: Your report divides its recommendations into stock and flow issues. Could you elaborate?
INGVES: In the short term, the chief problem in Japan's financial sector is that its banks have very little capital. If a banking sector is undercapitalized, it is not going to be too keen to lend; it will be preoccupied with its own problems and vulnerable to negative economic and market developments. Now, this is compensated for, in Japan, by a very well developed safety net, which articulates in detail what the government and the Bank of Japan are expected to do when a bank runs into trouble. It has been used and lends stability to the system.

What you need to do to deal with Japan's stock problem, then, is to move nonperforming loans out of the banks and recapitalize the banks. And when you recapitalize, you must ensure there is proper governance. It's not enough to just put in the money and hope the problem will go away.

But the problem is not only nonperforming loans. Japanese banks have—and have had for a long time—low profitability. You can increase profitability by producing new types of banking services, but in Japan, profitability is also linked to the large role of the government in the financial sector.

If the government maintains its current role in the private sector, the banks are likely to continue to have problems with their profitability.
—Stefan Ingves

Financial Sector Assessment Program

Resilient, well-regulated financial systems are essential for macroeconomic and financial stability in a world of increased capital flows. The Financial Sector Assessment Program (FSAP), a joint IMF and World Bank effort introduced in May 1999, aims to increase the effectiveness of efforts to promote the soundness of financial systems in member countries. Supported by experts from a range of national agencies and standard-setting bodies, these assessments seek to identify the strengths and vulnerabilities of a country's financial system; determine how key sources of risk are being managed; ascertain the sector's developmental needs; and help prioritize policy responses. Detailed assessments of the observance of relevant financial sector standards and codes are a key component of the FSAP.

The FSAP forms the basis of Financial System Stability Assessments (FSSAs), in which IMF staff address issues of relevance to the organization's surveillance, including risks to macroeconomic stability stemming from the financial sector and the capacity of the sector to absorb macroeconomic shocks. The FSSAs are discussed during the Article IV consultations with member countries. To date, FSSAs have been finalized for about 60 member countries, including major industrial countries such as Canada, Switzerland, the United Kingdom, and, recently, Japan. While the publication of the FSSA is voluntary, over 30 countries have chosen to publish their FSSAs, which are available on the IMF's website (www.imf.org).

Today, Japan's Postal Savings System and Postal Insurance System are among the largest such systems in the world. They have actually grown in recent decades. Almost every Japanese has an account with the Japan Post, and many also have a life insurance policy with the system. Money in these systems is largely channeled to the government, because they invest mostly in government bonds in one form or another. These systems have also, in the past, offered favorable conditions to depositors, been subject to limited prudential supervision, and been largely exempt from taxation. This has put them in a favorable situation when it comes to competition.

Add to this a number of other types of government-funded schemes for housing and for lending to small and medium-sized enterprises, and you have a government that competes with the private sector. It is not a fully level playing field. If the government maintains its current role in the private sector, the banks are likely to continue to have problems with their profitability. The government then ends up having to put money into the banks that it doesn't allow to make sufficient money in the first place. That's not a sustainable situation.

IMF Survey: What steps need to be taken then?

Ingves: The report takes the stand that the bigger, publicly supported lending schemes and deposit-taking institutions need to shrink their involvement in the financial sector if Japan's banking sector is to increase its profitability, consolidate, and develop new and better products. But, given the millions of people involved, the shrinking has to happen in an orderly way. It seems anomalous, but in the short run, the government needs to get more involved in dealing forcefully with the banking problems and the lack of capital, whereas in the medium term, it needs to reduce its role in the financial sector. How do you square that circle? Well, the issue here is timing.

IMF Survey: Are you optimistic that Japan will accelerate the pace of its reforms, as the FSAP suggests is needed?

Ingves: We very much want to see Japan accelerate its reforms. These problems have been lingering for the past 10 years. In a technical sense, this is not rocket science. The methods you use to generate change are well known and well tested. At this point, it's more a question of how to get the process going, and that's the point where these things touch the political process. Given that we are talking about greater public sector involvement in the short run and a smaller role for the public sector in the medium run, political decisions will be needed to propel these processes. And in Japan, as in all countries when you deal with the financial sector, you always have a bit of inertia and vested interests.

Hilbers: This past year has been encouraging in terms of the initiatives taken by the authorities. There is a sense in Japan that things need to change and the authorities are working on them. Now it is a matter of accelerating the reforms. Prime Minister Koizumi has just won reelection and has reappointed Heizo Takenaka as the minister in charge of economic policy and financial services. This will bring continuity to the reform program and opens the way for an acceleration of the financial revival agenda.

Ingves: The "to do" list is not controversial. The debate is over how to implement it, when to start, and what the consequences will be. The key word is implementation.

IMF Survey: The FSAP is completed now; the recommendations rendered. Is that it? Will there be follow-up or monitoring of progress on these recommendations?

Hilbers: "There is a sense in Japan that things need to change and the authorities are working on them."

Key policy recommendations

Asset quality and bank capital

- Further strengthen banks' provisioning for nonperforming loans
- Limit the use of deferred tax assets in calculating bank capital

Bank recapitalization

- Encourage banks to raise capital from the markets to meet stricter capital and provisioning requirements
- Recapitalize systemically important banks unable to raise sufficient capital in the market
- Require recapitalized banks to bring in new management
- Raise the minimum capital requirement for domestic banks to at least 8 percent

Bank governance

- Require banks to adopt corporate governance reforms

Corporate restructuring

- Encourage banks to set up subsidiary "work-out" companies
- Develop further the market for distressed debt

Supervision

- Provide the financial sector supervisor (FSA) with full operational autonomy
- Provide additional resources to the FSA and continue to enhance its human capital

Government involvement in the financial sector

- Reduce government involvement in the financial sector by restricting the activities of the postal savings and insurance schemes and the government lending agencies

Ingves: "Over time, I suspect we are going to move toward more continuous surveillance of the financial sector in our member countries."

INGVES: We are moving into a world where there will be more focus on what's going on in the financial sector in our annual Article IV consultations with member countries. What we are working on right now is defining a module dealing with the financial sector that can be included in the Article IV consultations. For those countries that have had an FSAP and recommendations, this would be a very natural follow-up.

HILBERS: This was clearly a point that our Executive Board made in its review of the FSAP earlier in the year.

INGVES: It's very likely that Japan's next Article IV report will contain something on the financial sector and some references to the conclusions in the FSAP and what has happened in the meantime. Over time, I suspect we are going to move toward more continuous surveillance of the financial sector in our member countries.

IMF SURVEY: Finally, given the size of Japan's economy and the protracted nature of its financial sector problems, how routine an FSAP was this?

INGVES: It was a complex and lengthy process, but a very good process—one that Japan managed very professionally and took very seriously. There was a bit of diplomacy at the start. We spent some time visiting the country and explaining how an FSAP is done. You have to remember that our annual Article IV consultations with member countries have been done for the past 50 years or so and are now quite routine. When I was with the Swedish central bank and on the receiving end of an Article IV, we knew what was going to happen. We took last year's binder and went from there.

But FSAPs haven't been around for more than a few years. It takes some time for countries to get used to them, and the work process evolves on our side, too. FSAPs are a new concept and because some of our counterparts, such as bank supervisors, have never worked with the IMF before, we do a lot more explaining.

HILBERS: The FSAP team is also larger than most Article IV teams. It's not just IMF staff. We have a whole range of experts from national supervisory institutions who collaborate with us, particularly in assessing compliance with international standards and codes. The experts add an element of peer review.

INGVES: That was very much the case in Japan. We had the privilege of using very experienced people from the supervisory functions of other industrial countries. So, yes, it's a large and complex process, but a large number of countries have signed up for it, and the world is getting used to it. The process works. ■

IMF approves three-year loan for Argentina

Argentina's Finance Minister Roberto Lavagna.

On September 20, the IMF's Executive Board, meeting in Dubai ahead of the joint World Bank–IMF Annual Meetings, approved a three-year, $12.55 billion Stand-By Arrangement for Argentina. The financing is aimed at enabling the country to restore sustained growth, reduce poverty, and improve equity indicators. Key elements of the new program include a framework for ensuring sustainable public finances and normalizing relationships with creditors, a strategy to strengthen the banking system, and institutional reforms to facilitate corporate restructuring and improve the investment climate.

Over the past year, Argentina has made a welcome start in restoring a measure of economic stability, IMF First Deputy Managing Director Anne Krueger noted at the conclusion of the Executive Board session. Growth and confidence are recovering, unemployment is declining, and inflation is being held under firm control. Nevertheless, many key challenges still face Argentina, she said, which the new medium-term IMF-supported program is designed to address.

The program seeks to build on the country's recent success in stabilizing the economy and both improve growth rates and extend the benefits of a healthier economy to the entire society. To do this, the program will pursue reforms in three main areas:

• A medium-term fiscal framework to meet growth, employment, and social equity objectives while providing a sound basis for normalizing relations with all creditors and ensuring debt sustainability.

• A strategy to assure the strength of the banking system and facilitate the increase in bank lending that is essential to support the recovery.

• Institutional reforms to facilitate corporate debt restructuring, address issues of the utility companies, and fundamentally improve the investment climate.

Reforms are carefully sequenced to allow time for policymakers to build consensus. Within these three areas, the program has set the following objectives:

Growth and inflation: GDP growth is targeted to reach 5.5 percent in 2003 and stay at around 4 percent in 2004–06. Core inflation is expected to be maintained in single digits.

Fiscal policy: The chief aim will be to raise the consolidated primary surplus from 2½ percent of GDP in 2003 to 3 percent in 2004. Beyond 2004, the authorities have committed to primary surpluses at levels sufficient to cover net payments on performing debt and obligations that may result under a debt restructuring agreement, while taking into account growth, employment, and social equity objectives.

Structural fiscal reforms: A number of steps are envisaged to underpin the fiscal consolidation and facilitate the phasing out of tax distortions. The authorities have committed to submit tax reform and intergovernmental reform legislation during 2004, with a view to their being introduced in the context of the 2005 budget.

Monetary policy: The authorities will continue to aim at entrenching low inflation expectations, with base money growth driven mainly by the accumulation of international reserves. Also under consideration are a move to an inflation targeting regime by end-2004 and reforms aimed at increasing further the autonomy of the central bank.

Banking reforms: One of the chief objectives of the program is to strengthen the soundness of the overall system and put public banks on a sound financial footing. By end-2003, the authorities plan to eliminate temporary rules on the prudential treatment of lending to the private sector, and to complete compensation payments to banks for losses associated with the asymmetric pesoization and indexation of their balance sheets. The authorities have also committed to closely monitor the strength of the banking system. In this regard, by mid-December 2003, they will assess the impact of the losses arising from judicial decisions (*amparos*) and identify measures that may be needed to assure the strength of the system.

Debt restructuring: The authorities have committed to a comprehensive and orderly restructuring of public debt that is consistent with eliminating financing gaps and achieving medium-term sustainability. Toward this end, the authorities are to continue negotiations with external creditors with a view to completing the restructuring of public debt in 2004.

Utility companies: The program envisages early congressional approval of legislation that delegates powers to the executive branch to renegotiate the contracts of the privatized utility companies and gives the executive the power to implement interim tariff increases.

Anoop Singh: “Much will depend on firm implementation, including a successful debt operation.

Predictable legal framework: The authorities intend to review the country’s insolvency system and to put in place a legal and regulatory framework conducive to progress on private corporate debt restructuring.

Containing the risks

Krueger acknowledged that a number of risks are associated with the proposed program, including those arising from the fact that key elements of fiscal and banking reforms that are crucial to sustainability will not be formulated until a later stage. “Decisive policy actions by the Argentine authorities, along with strong policy ownership, will be crucial to minimize these risks,” she said. And early conclusion of a sustainable debt restructuring agreement, which would pave the way for Argentina to return to capital markets, is fundamental to the success of the program. Anoop Singh, Director of the IMF’s Western Hemisphere Department, seconded this view in his opening remarks at a September 21 press conference. He welcomed the current recovery in Argentina but cautioned that “much will depend on firm implementation, including a successful debt operation.” ■

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World Economic Outlook

Return to normal growth predicted

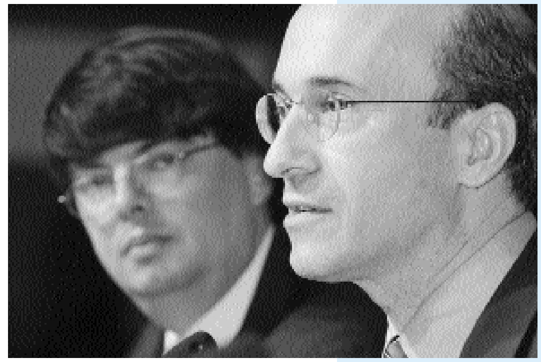
For the first time in a very long time, the IMF is reasonably optimistic that the global economy will shortly return to normal growth, said Kenneth Rogoff, Economic Counsellor and Director of the Research Department. In opening remarks at a September 18 press conference releasing the September 2003 *World Economic Outlook (WEO)*, he noted that immediate geopolitical uncertainties have receded, aftershocks from the bursting of the equity price bubble are dissipating, and the massive policy stimulus put in place after the downturn is starting to bear fruit. But the growth will not be balanced: in the United States and emerging Asia, the only question is how long the rebound will be sustained, whereas Europe is struggling to turn the corner and Japan's prospects, though clearly improving, remain clouded.

Looking down the road to the second half of 2004 and beyond, there are still many risks, Rogoff noted. For example, the disturbing global pattern of current account imbalances is likely to get worse before it gets better as the United States continues to absorb a large share of world savings while Asia provides much of it. The U.S. recovery has not produced jobs, which poses some risk to consumption, as does the significant possibility of a housing price bust in some countries—especially as historically low interest rates rise when the global economy picks up. Another cloud on the horizon is the high and growing level of public indebtedness throughout the world (see *IMF Survey*, September 8, page 255). Still, given how long it has taken to get a sustained pickup under way since the 2001 slowdown, an unbalanced recovery is far preferable to none at all, Rogoff observed.

The *WEO* baseline projections for global growth in 2003 and 2004 have not changed since the spring *WEO*: 3.2 percent for 2003 and 4.1 percent, just a little bit above normal, for 2004. But now the IMF sees at least as much upside potential as downside risk over the next 9–12 months.

Mixed picture in industrial countries

In the United States, much of the incoming data, including on productivity, are strong, and the forecast for U.S. growth of 2.6 percent in 2003 and 3.9 percent in 2004 seems realistic. In fact, the prospects until, say, late 2004 are that these projections might even be exceeded. After that, however, while the U.S. productivity numbers continue to be encouraging, the twin fiscal and external current account deficits will eventually have to be reined in.



Rogoff: "For the moment, most Europeans who want to see an economic recovery will have to watch it on TV."

What about Japan? It has seen a remarkable uptick in its GDP numbers lately, so the *WEO* upped its growth forecast for 2003 to 2 percent and, for 2004, to 1.4 percent. However, Japan is not yet out of the woods. Trade with booming emerging Asia, including China, has helped fuel short-term growth, as has business fixed investment. But underlying problems with corporate and bank balance sheets, the soaring government debt, and entrenched deflationary expectations are all still major roadblocks to strong sustainable growth.

As for Europe, the most concrete positive news seems to be the good news elsewhere, Rogoff said regretfully. Germany, Italy, and the Netherlands were all in recession in the first half of the year, and French GNP declined in the second quarter, as did GDP for the euro area as a whole. Weak consumer confidence and fragile corporate balance sheets are among the main problems. For the moment, Rogoff remarked, most Europeans who want to see an economic recovery will have to watch it on TV. But if the forecasts are right, euro-area growth will pick up from 0.5 percent in 2003 to 1.9 percent in 2004. The *WEO*'s tepid optimism is based on projections of higher exports to the rest of the world, as well as the fact that there is considerable synchronization between Europe's economy and that of the United States based on many common variables, including technology, oil prices, and confidence. Last but not least, recent months have seen a number of promising initiatives on the structural reform front, including the German government's plans to reform labor markets and the French government's attempts to deal with the politically sensitive pension issues.

Growth resilient in developing countries

As for the rest of the world, China and India's strong growth portends an inevitable changing of the guard in Asia, Rogoff said. The *WEO* projects China's growth at 7.5 percent for both 2003 and 2004, and the risks are quite possibly tilted to the upside there. India is also expanding strongly, with growth forecast at 5.6 percent in 2003 and 5.9 percent in 2004. In Latin America, a tentative recovery seems to be

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emerging on the back of strong exports, though domestic demand is still weak. Growth in sub-Saharan Africa (excluding South Africa) remains resilient at 3.6 percent in 2003 and 5.9 percent in 2004, though the latter depends on a substantial improvement in political stability and favorable weather conditions.

In the Middle East and North Africa region, growth is forecast at 5.2 percent in 2003 and 4.5 percent in 2004, but longer-term growth depends on tackling some of the structural issues discussed in the *WEO*. The baseline forecast for the price of oil in 2004 is $25 a barrel, though to describe oil prices as difficult to forecast would be quite an understatement.

In short, Rogoff said, although there is now good cause for reasonable optimism that the global economy is finally digging its way out of a hole, this is certainly no time for complacency. The recent collapse of trade negotiations in Cancún is a tragedy—not least, he added, because without stronger trade, global growth will eventually slow significantly and global poverty will rise.

China's trade surplus

In response to a reporter's question about the degree to which China's trade surpluses with the United States and the European Union were due to an undervalued exchange rate, Rogoff said, first, that one should look at multilateral rather than bilateral current account balances and exchange rate relationships and, second, that the many controls in China's economy make it hard to isolate the impact of the exchange rate on the current account. True, the current constellation of controls and the fact that China is accumulating reserves at a rapid rate suggest that, everything else equal, there is significant pressure for appreciation. But the world was having the same debates about Japan 15–20 years ago, where at times the more the yen appreciated, the bigger the trade balance surplus it seemed to run, indicating there was not such a simple direct correlation.

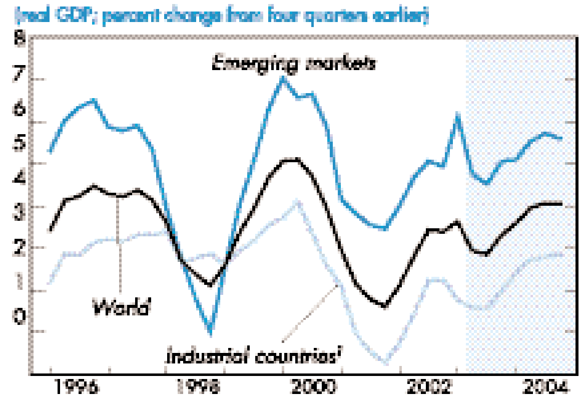
After Cancún

Asked to gauge the likely macroeconomic implications of the failure of world trade talks in Cancún, Rogoff pointed to the steady expansion in global trade over the post–World War II period as a major factor in raising world incomes and reducing world poverty. It is of considerable concern, he observed, that trade has been slowing over the past decade. Continued trade growth is important for maintaining the high levels of productivity growth in recent years, which many people take for granted.

Also queried about whether *WEO* growth projections for the Middle East tallied with the current situation there, Rogoff responded that the projections assume higher oil prices and increased oil production, while the security situation in the Middle East has hindered growth—for example, through its effects on tourism. There has, he said, been progress in some areas of structural reform, but, certainly, over the longer term, further reform—including flexible economies, diversifying away from oil production, opening economies to trade, strengthening institutions, and reducing the role of the public sector—will be needed to increase growth. The big challenge is to achieve higher and sustained per capita growth and thereby address high unemployment across the region.

Global recovery is expected to resume in late 2003

(real GDP; percent change from four quarters earlier)



[1]Australia, Canada, Denmark, euro area, Japan, New Zealand, Norway, Sweden, Switzerland, the United Kingdom, and the United States.

Data: Haver Analytics; and IMF staff estimates.

Imbalances and currency questions

For the global economy, current account imbalances pose a serious problem for the medium term, and the problem, Rogoff replied to another question, is probably getting worse with the unbalanced recovery. Some day, the U.S. current account deficit—now over 5 percent of GDP—has to unwind, and, when it does, there will be a sharp drop in the dollar. The question is, Where will the burden of adjustment fall? Clearly, if the euro has to bear the lion's share of the adjustment, that will create a lot more difficulties than if it is more evenly distributed, with some accompanying appreciation in Asian currencies. "It is bad enough that the global economy has been flying on one engine," Rogoff noted, "but it is going to be a lot worse if it has to land on one wheel." ■

Marina Primorac
IMF External Relations Department

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