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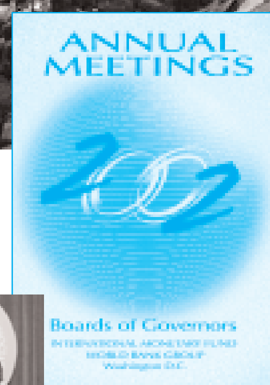
Annual Meetings

Ministers back new approach to sovereign debt workouts, vow to revive global economy

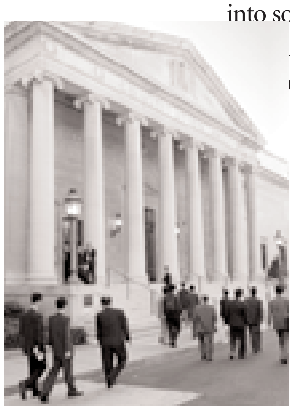
DAR Constitution Hall provided the venue for the plenary session of the 2002 Annual Meetings of the IMF and the World Bank.



At the IMF–World Bank Annual Meetings during September 28–29, the world's top financial leaders agreed to step up efforts to prevent and resolve financial crises, such as those that have engulfed many emerging market economies in Latin America and east Asia since the mid-1990s. The IMF's ministerial steering committee—the International Monetary and Financial Committee (IMFC)—directed IMF management to prepare a concrete plan for a statutory sovereign debt restructuring mechanism by its next meeting in spring 2003.

Under the plan, a country with an unsustainable debt burden would be able to enter into something akin bankruptcy roceeding. The hope is that, by enabling nearly bankrupt countries to renegotiate loans with their creditors more easily, the severity of debt crises will be lessened. This plan is part of a two-track approach that would include the insertion of collective action clauses in bond contracts, allowing a majority of creditors to determine whether there will be a debt renegotiation.

From left, IMF Managing Director Horst Köhler, Swiss National Bank President Jean-Pierre Roth (Chair of the 2003 Annual Meetings), World Bank President James Wolfensohn, and Chair of the 2002 Annual Meetings, Ahmed Macki.



DAR Constitution Hall.

IMF Managing Director Horst Köhler, speaking to reporters after the IMFC meeting, insisted that a sovereign bankruptcy mechanism "will not undermine the credit culture in the global economy." Rather, "it's a last resort" that fills a gap in the international financial architecture. IMFC Chair Gordon Brown, the U.K. Chancellor of the Exchequer, noted that the ministers were meeting at a testing time for the world economy, with 20 countries accounting for half the world's output having been in recession at some point this year or last (see IMFC press conference, page 301).

In this issue

Reviving the world economy

The need to revive the flagging world economy topped the IMFC's agenda. The committee said that "the global economic recovery is proceeding, although at a slower pace than expected earlier this year." In recent weeks, the IMF has cut its forecast for world output growth in 2003 to 3.7 percent, with 2.8 percent expected this year, up from 2.2 percent in 2001—citing a sell-off in global equity markets, a decline in investor risk appetite, softer than expected indicators for the past few months, further turmoil in parts of Latin America, and heightened risk of uncertainty and conflict (see *World Economic Outlook* story, page 318). Köhler and World Bank President James Wolfensohn said they viewed the global outlook with "realistic confidence," which, Wolfensohn suggested, stands somewhere between wild optimism and wild pessimism.

Bodil Nyboe Andersen, Danish Central Bank Governor, addresses the plenary session.

The IMFC said that it welcomed Brazil's commitment to sound policies and acknowledged the positive steps taken in recent months by Argentina to address its difficult economic situation. Köhler told reporters after the meeting that he was confident that Brazil would avoid a debt restructuring because of its huge potential for growth, job creation, and trade; the remarkable improvement in its economic, financial, and monetary fundamentals over the past year; and the fact that the major presidential candidates have endorsed the crucial elements of the IMF program with Brazil.

Prime Minister Mari Bin Amude Alkatiri of the Democratic Republic of East Timor—the newest member of the IMF.

The IMFC called on the IMF's 184 member countries to "continue to be ready to adapt policies as necessary in order to foster broad and sustained growth, strengthen policy and regulatory frameworks, and support durable poverty reduction" (see IMFC communiqué, page 298). It urged Europe to forge ahead with structural reforms, especially in labor and product markets; the United States to strengthen corporate governance, accounting, and auditing; and Japan to vigorously pursue banking and corporate restructuring, especially by addressing the issue of nonperforming loans. It also called on industrial countries to open up their markets to developing countries and phase out trade-distorting subsidies.

Similar sentiment had been expressed on the previous day by the Group of 24 developing countries. Its communiqué called for "prompt and decisive actions in the United States, including through the effective implementation and enforcement of corporate governance legislation, to restore investor confidence." The ministers said that the continued decline in global equity markets and fragility of investor confidence in international capital markets had tightened financing conditions in emerging markets and was "intensifying the risks of a worldwide credit crunch" (see Group of 24 communiqué, page 311).

Helping the poorest

After the IMFC meeting on September 28, the Development Committee, chaired by South African Finance Minister Trevor Manuel, focused on ways that the global community could convert the ideas and shared approaches agreed on in Doha, Monterrey, and Johannesburg to concrete action (see Development Committee communiqué, page 304). Manuel told a press conference that "we have jawed about this enough, and we must now focus on issues of implementation." Wolfensohn added that he sensed "a new commitment" not only to writing checks but also to tackling the issues of trade and subsidies.

But at a press conference of African finance ministers on September 28, Ali Bedjo Gamatie of Niger cautioned that Africa needs to be realistic. "There is an emotional dimension to agricultural products in the United States and in Europe," he said, adding that as long as the industrial countries can afford to subsidize their farmers, they will.

On debt relief for the heavily indebted poor countries (HIPCs), most of which are in Africa, the world's top financial leaders reaffirmed their commitment to the full financing of the joint IMF–World Bank HIPC Initiative—which means filling a shortfall of about $1 billion in the HIPC Trust Fund.

The IMFC also welcomed the IMF's recent adoption of new guidelines on conditionality, the outcome of a review initiated by Köhler two years ago. "The consistent implementation of these guidelines will help enhance the effectiveness of IMF-supported programs by fostering national ownership and streamlining conditionality, focusing it on elements critical to the success of members' economic programs," the communiqué said. ■

Annual Meetings chair's opening address

Strengthened cooperation needed to guide global integration

Following are edited excerpts from the opening address of this year's Chair of the Boards of Governors, Ahmed Macki, Governor of the IMF and the World Bank for the Sultanate of Oman. The full text of the address, given September 29, is available on the Annual Meetings website (www.imf.org/external/am/2002/index).

There is much to be accomplished during these meetings, and we will all need to work together if we are to make tangible progress. I come from a region where we fully recognize that we need to cooperate with our neighbors to address issues of common concern and to strengthen and deepen relationships. The Sultanate of Oman has developed rapidly during the past 30 years by achieving the stability that comes from the collective cooperation of our people and from working together with our regional neighbors and key trading partners.

Managing global integration

There is now more than ever a need to strengthen international cooperation to guide global integration and the pursuit of our common goals—the fight against poverty, the sustained development of our economies, and the prevention of financial crises. No institutions are better equipped than the IMF and the World Bank to facilitate such cooperation and to ensure that all our voices are heard. It is also critical that each country demonstrate the political will and commitment to follow appropriate policies, create the necessary institutions, and establish an environment conducive to economic growth based on good governance and the rule of law.

Global economy

The global economic outlook is improving slowly, but the recovery has yet to take firm hold, and the downside risks have increased. The recent volatility in equity markets and new concerns in corporate governance clearly indicate that the risks and vulnerabilities arising from industrial countries are as significant as those in emerging market and developing countries, if not more so. In this regard, I welcome the prompt action taken by the U.S. authorities to strengthen regulation and enforcement in the financial sector.

A major risk to the economies in my region, but also to the global economy, is the deteriorating security situation in the Middle East. I urgently call for greater efforts by the international community and all parties involved to seek a peaceful resolution to this and all other conflicts. Political turmoil, civil unrest, and conflict all severely hold back progress in tackling poverty and achieving economic prosperity.

Poverty reduction

The greatest challenge we face today is to eliminate poverty. It is our responsibility to ensure that the world's poorest also benefit from the increasing integration of the world economy. An unprecedented degree of agreement about what is required to overcome poverty and promote global development was reached in Monterrey. The Monterrey Consensus reaffirmed the importance of sound policies and good governance to ensure the effectiveness of official development assistance. Oman and other Arab donor countries have demonstrated our longstanding commitment to international cooperation by contributing substantial concessional assistance and aid to developing countries. Indeed, we have consistently exceeded the target of 0.7 percent of GNP for official development assistance set for the industrial countries.

Macki: "I call upon the industrial countries to commit to opening their markets."

The recent UN world summit in Johannesburg reaffirmed the primacy of sustainable development as a central element of the international agenda. It concluded with significant commitments in water and sanitation, energy, health, agriculture, biodiversity, and ecosystem management. The challenge now is to implement these commitments.

The Bank and the IMF have also made substantial progress in approving debt relief for heavily indebted poor countries through the HIPC Initiative. It has allowed these countries to increase their spending in such critical areas as health, education, and basic infrastructure. We hope that additional countries will soon be receiving debt relief under this program.

Trade

International trade has a vital role to play in fostering economic development and reducing poverty.

Enhanced market access for developing countries and their effective participation in the Doha Development Agenda are essential to ensure that the benefits of further trade liberalization are shared by all. It is regrettable that the trade policies of many industrial countries continue to restrict access to the exports of developing countries, particularly textiles and agricultural products. I call upon the industrial countries to commit to opening their markets. Developing countries should also push ahead with their own liberalization efforts.

Financial sector issues

Globalization of the financial markets has created new opportunities for both industrial and developing countries. It has also underscored that, in today's global financial system, characterized by vast and volatile cross-border capital flows, strong financial sectors are necessary to promote savings, investment, and growth. I welcome the IMF's efforts to identify vulnerabilities better and provide timely advice and support for preventing future crises. The IMF and the Bank also play an important role in safeguarding the stability and the integrity of the international financial system through their efforts to combat money laundering and the financing of terrorism. These issues are of critical importance to countries at all stages of development.

In conclusion, I believe that our institutions are now stronger and ever more committed to ensuring that the opportunities and benefits brought about by globalization are made available to, and shared equitably by, all members, particularly the less fortunate. I am certain that the synergies of our working together will help achieve much more than the sum of our individual efforts. ■

Köhler's Annual Meetings address

Köhler outlines guideposts for better globalization

Köhler: "Growing interdependence means that no nation should neglect the impact of its actions on the rest of the world."

Following are edited excerpts from an address by IMF Managing Director Horst Köhler to the Board of Governors of the IMF on September 29, in Washington, D.C. The full text is available on the IMF's website (www.imf.org).

A little more than one year ago, the world experienced a traumatic attack on stability, peace, and human dignity. The community of nations rose to the challenge and demonstrated that it is capable of acting together to make the world a better place. We should not lose this momentum, but build on it and strengthen international cooperation to meet the global challenges that lie ahead. I see today's gathering of 184 member countries of the IMF and the World Bank as an important part of that effort.

IMF in a process of change

Two years ago, at Prague, we dedicated ourselves to making the IMF an active part of the international workforce to make globalization work for the benefit of all. Our vision of the future role of the IMF defined it as an institution that

- is committed to openness, dialogue, and learning from experience;
- cooperates closely with other institutions dedicated to the provision of global public goods;
- promotes sustainable and broadly shared economic growth in the world; and
- is the center of competence for the stability of the international financial system.

My report to the IMFC demonstrates that our member countries, Executive Board, management, and staff have been working hard and making progress. The IMF has become more transparent and accountable. Our surveillance review will lead us to better vulnerability analysis, greater attention to institutional weaknesses, and better tailoring of our advice to social and political realities. We are more focused on financial sectors and international capital markets. We are actively engaged in the fight against money laundering and the financing of terrorism. In our work with low-income countries, the poverty reduction strategy paper process has become recognized as an effective way to organize poverty reduction strategies and a path to debt relief under the enhanced Heavily Indebted Poor Countries Initiative. We have strengthened and prioritized our technical assistance, not least through the establishment of regional centers in the Pacific, the Caribbean basin, and sub-Saharan Africa. We are streamlining and focusing IMF conditionality for more effective programs and greater national ownership of reforms. We are collaborating more closely with the World Bank and other organizations. And we are building a culture of listening and learning in the IMF, most recently through the establishment of the IMF's Independent Evaluation Office. I am pleased that its first report [see page 317] has confirmed that we are on the right track in our reforms of IMF conditionality and surveillance, and I have established an internal task force to follow up on its suggestions for further improvements.

I have no doubt that our comprehensive work program will help to promote sustained growth and make financial crises less frequent and less severe. But the benefits we can see in our member countries are the true measure of progress. On that basis, it is clear that we still have a lot of unfinished business.

Global economy

Our most immediate concern must be to strengthen the global economy. There are clearly a number of risks and uncertainties. But we should be aware of undue pessimism. There are still good reasons to expect that the recovery will continue. And while there are widespread signs of risk aversion, I trust that there are still entrepreneurs who look for new opportunities and are not content to follow the herd. I take particular encouragement that discussions in the IMFC showed that our members know what to do in case of further signs of weakness in economic activity. Monetary policy should be the first line of defense, as long as inflation prospects remain subdued. I also expect a boost to confidence as the advanced countries take energetic action to tackle underlying impediments to stronger growth. And I take confidence from the fact that these Annual Meetings demonstrate that international cooperation is alive and well.

The advanced countries have a particular responsibility and must show leadership in making the global economy stronger. We look to the United States to set a continued example and to guard against the reemergence of sustained fiscal deficits. We look to Europe to stick to the Stability and Growth Pact and accelerate structural reforms in labor markets and pension systems. We trust that Japan will now move forward with bold reforms of the banking and corporate sectors and act decisively to end deflation. We welcome further action to build confidence in accounting and corporate governance. And we look to the advanced countries for leadership in strengthening the multilateral trading system and bringing the Doha Round to a successful conclusion.

Fighting world poverty

It is essential for the IMF, as a universal institution, to be actively engaged in the fight against world poverty. Monterrey and Johannesburg have paved the way with a "two-pillar" approach for overcoming world poverty, based on self-responsibility and better international support. I am particularly encouraged that this also forms the guiding spirit of the New Partnership for Africa's Development. The IMF will continue to act decisively—in close cooperation with the World Bank—in helping our low-income members to promote macroeconomic stability and sustained growth. We will continue to show flexibility in our support for postwar institution building and economic recovery in Rwanda, the Democratic Republic of the Congo, Afghanistan, and other countries emerging from conflict. And I also think it is right for us to speak out on behalf of the poor—for stronger growth in the world, for better market access and a phasing-out of trade-distorting subsidies, for more aid, and for increased efforts to build local capacities. That also means that faster structural change in the advanced countries is indispensable for a breakthrough in the fight against poverty.

Investing in globalization

We should welcome the broad and critical public debate about globalization. I see this as an important part of the search for ways to make globalization more inclusive and to better balance its risks and opportunities. This means that integration into the global economy must be accompanied by investments in making integration pay off for the people of the world, and especially for the poor—investments in better national policies and better cooperation. I see five guideposts for investing in better globalization:

- ***Interdependence.*** Growing interdependence means that no nation should neglect the impact of its actions on the rest of the world. This also obliges us to pay as much attention to risks originating in the advanced countries as we do to problems in emerging markets and developing countries.
- ***Self-responsibility.*** Self-responsibility is the natural counterpart of freedom, human dignity, and national identity. Our actions should support and encourage it.
- ***Solidarity.*** The fight against world poverty is everybody's business. We should all be actively engaged in promoting socially and environmentally sustainable development, by helping the poor to help themselves.
- ***A level playing field.*** This requires sound institutions and respect for the rule of law within nations. It requires transparent international decision making. And it also requires an inclusive process for developing internationally accepted standards and codes of conduct, as rules of the game for the global economy.

Monetary policy should be the first line of defense, as long as inflation prospects remain subdued.
—Horst Köhler

ANNUAL MEETINGS

• *No one-size-fits-all approach.* The diversity of the human experience should be understood as part of the wealth of this planet. Indeed, I see some degree of competition among economic models as healthy for the global economy.

Further reform of the IMF

These principles are guiding the process of change at the IMF. Beyond the initiatives already under way, I am convinced that they should also be reflected in an integrated concept for further reform, to strengthen confidence and match the IMF's capacities with the needs of the global economy. For this concept, I would suggest combining actions in four crucial areas.

• We need to provide a better safety net for countries pursuing sound policies.

• We need clearer and more predictable policies on access to IMF resources.

• There should be better mechanisms for dealing with unsustainable sovereign debts.

• Our members should demonstrate their willingness to ensure that the IMF has the resources to be a confidence-building anchor for the international financial system.

We should encourage countries to put in place "shock absorbers" to cope with volatility and risk in the global economy.
—Horst Köhler

The IMF's member countries have overwhelmingly embraced the principles of democracy, openness, and economic stability. Now we need to support them and help them stay the course. We should encourage countries to put in place "shock absorbers" to cope with volatility and risk in the global economy. These include appropriate exchange rate regimes; better debt and reserve management; sound budgets that leave room to maneuver in difficult times; efficient and diversified financial sectors; and more effective social safety nets. At the same time, where a country has been doing all it reasonably can to cope with risks in the global environment, we should have a contingency mechanism that provides rapid, effective support with a high degree of automaticity when they are threatened by turbulence in the global economy. I know there are differing views about the wisdom and relevance of the IMF's Contingent Credit Lines (CCL), and we will be reviewing this facility in the coming months. I am convinced that the underlying principle is still correct and that we should work to make this principle operational.

We have been working to develop a comprehensive approach to crisis resolution that combines a clearer and more predictable access policy, including greater selectivity in IMF lending, with systematic debt sustainability analysis and better mechanisms for restructuring unsustainable sovereign debt. There is now broad agreement within the public and private sectors on the need for ways to restructure sovereign debt in a timely, orderly, and less costly manner while protecting asset values and creditors' rights. The IMF will continue to support efforts to develop collective action clauses that could be included in international debt instruments. And I appreciate the strong encouragement that the IMFC gave us this weekend to come back with a concrete proposal for a sovereign debt restructuring mechanism, to be considered by our membership at the time of our meeting next spring.

In a world of integrated global capital markets, we should be aware that the principle of helping good performers to withstand disturbances in the global economy will at times require the capacity to provide very strong support. This does not mean that the IMF should seek to match the scale of private financial flows or become a global lender of last resort. The IMF has adequate liquidity for the immediate future. But markets and political processes are forward-looking, and it would not be prudent to allow the size of the IMF to shrink in relation to the size of the global economy. Thus, as the final element in an integrated concept for further reform, openness to an increase in IMF quota resources at the appropriate time should be seen as an important investment in better globalization.

At the same time, I share the view that the current distribution of IMF quotas needs to be reconsidered, especially to correct the underrepresentation of a number of emerging market countries. We should also strengthen the voice of African countries in the IMF. These will be important steps to strengthen the cooperative nature of the IMF.

Global economy needs global ethics

I am convinced that a better world is possible if we are willing to invest in better globalization. But I also believe that we need to take our concept of global governance one step further. Recent corporate scandals should remind us that there must be more to a market economy and entrepreneurship than profits alone. As President Vaclav Havel said two years ago in Prague, a global economy needs a sense of global ethics. I would encourage you to visit the exhibition "World Religions, Universal Peace, Global Ethic," prepared by the theologian Hans Küng, that is now under way at the IMF. I share Professor Küng's view that there can be no survival of the globe without a global ethic. And I think that you will be struck by how much common ground he has demonstrated among the major religions and philosophies of the world. And I trust that you, too, will see this as another source of hope for the future of the world. ■

Wolfensohn's opening address

It is time to move beyond words

World Bank President James D. Wolfensohn addressed the Board of Governors in Washington on September 29. Following are edited excerpts from his address; the full text can be found on www.worldbank.org/annualmeetings.

These have been a tough two years. In the rich world, collapsing stock markets and corporate scandals have shaken confidence and mutual trust. The developing world has been hit by wars and conflict, falling commodity prices, slack demand, and restrictions on trade with rich countries. There has been a heavy human toll in Africa and Latin America. Yet much of the developing world has shown strong resilience. This is a tribute to the progress made in shaping and implementing policies.

We have seen a recognition that international problems require international responses. Last September 11, the world finally recognized that there are not two worlds—rich and poor—but one, linked by finance, trade, migration, communications, environment, communicable diseases, and crime. People are demanding a system based on equity, human rights, and social justice, and the world is beginning to listen. Commitments have been reached at Doha, Monterrey, and Johannesburg, laying a new basis for a global partnership.

For successful poverty reduction, developing country leaders must drive their own development and create an environment to encourage growth that is equitable for all people. This must be based on sound social and economic policies—investment in health care and education; effective legal and judicial systems; clear tax and regulatory frameworks; and strong and well-regulated financial systems. For many countries, the New Partnership for Africa's Development shows the way.

Developed countries have agreed to help developing countries build capacity, increase assistance where it is effective and well managed, open markets to trade, and reduce agricultural subsidies. They reaffirmed their commitment to the Millennium Development Goals for poverty and hunger, education and health, gender equality, and the environment.

Together, we have set 2015 as the deadline for our results. We must now, together, move beyond words. But development is not about quick fixes. Bringing lasting change requires vision, patience, a long-term commitment, focus, and discipline. And it requires us to measure effectiveness. What must each of us do?

The rich countries must bring down their tariffs and cut back nontariff barriers. Their agricultural subsidies, at $1 billion a day, squander resources and damage opportunities for poor countries to invest in their own development. Take the opportunity at the World Trade Organization Cancun meeting in 2003 to make firm commitments on subsidies, but I urge you to act sooner. Deliver on the commitments of increased aid made at Monterrey and the excellent response to financing the shortfall for the HIPC Initiative. Untie aid and coordinate and harmonize development programs and policies better. The fragmentation of donors' efforts has long plagued the effectiveness of aid. Many of the failures blamed on borrowing countries actually represent the failures of donors.

The Bank must implement its promises to work toward the Millennium Development Goals. Though we have changed greatly over the past decade, we must become more transparent, measure our results more rigorously, and, with others, be held accountable against broader country goals. For the first time, the development community has a tool—the Development Gateway—that enables us to collate and learn more about the development projects going on around the world. There are over 63,000 such projects, not including those undertaken by civil society or church groups. All too often, projects in the same sector and country are run by many agencies that are not talking to each other. We must use the Development Gateway to better coordinate our efforts.

We have come a long way, but we must go further. Over the next 50 years, the world's population will likely grow from 6 billion to 9 billion, with almost 95 percent of that increase in the developing world. Food needs will double, annual output of carbon dioxide will triple, and more people will live in cities than in rural areas, placing an enormous strain on infrastructure and the environment. If we are to go on reducing poverty effectively, we will need an average annual growth rate of the world economy of around 3.5 percent. If we retain the current distribution of income, in which 15 percent of the world's population controls 80 percent of the world's income, we will not have sustainable development. If we continue to exclude the disenfranchised from playing their rightful role in society and ignoring their human rights, we will not have sustainable development, and we may not have long-term peace.

That is the challenge that together we must meet. We can influence whether we have a planet of peace, social justice, equity, and growth or a planet of unbridgeable differences between people, a planet of wasted physical resources, strife, terror, and war. ■

Last September 11, the world finally recognized that there are not two worlds—rich and poor—but one, linked by finance, trade, migration, communications, environment, communicable diseases, and crime.
—James Wolfensohn

Closing press conference

What is wanted is better globalization, not less globalization

Following are edited excerpts from the closing press conference by Ahmed Macki, Chair of the Annual Meetings; Horst Köhler, IMF Managing Director; and James Wolfensohn, World Bank President, held on September 29. The full text of the press conference is available on the IMF's website (www.imf.org).

(From left) World Bank President James Wolfensohn, Annual Meetings Chair Ahmed Macki, IMF Managing Director Horst Köhler, and IMF External Relations Director Thomas Dawson.

MACKI: Our discussion covered a wide range of issues from poverty reduction to the global economic uncertainties to the ways the IMF and the Bank can continue assisting members to strengthen their economies.We emphasized that all of us must continue to work as partners if we are to make progress toward achieving the Millennium Development Goals.

KÖHLER: The meetings have been very productive and successful. I was encouraged because there was no doom and gloom, but some realistic confidence that the recovery will continue.

There is a broad consensus coming that globalization has created unprecedented opportunities to improve the wealth of nations, but members are also aware of the challenges and risks. They don't want less, they want better globalization.

What I took from these discussions is that the IMF is strengthened by its members. It has to listen, learn from dialogue and experience, and adapt to new questions and challenges.

WOLFENSOHN: This has been a very positive meeting; I share Horst's sense of something that is in between wild optimism and wild pessimism. I hope that you will all go out of here with a sense of enthusiasm. But we have a number of things to do. We should stop philosophizing and actually get on with our respective tasks and reach out and try to do a better job in working with civil society and the private sector.

QUESTION: Mr. Köhler, now that you've had the meetings and talked to a lot of Japanese officials, what is your assessment of the Japanese economy and the Bank of Japan's proposal to buy shares ?

KÖHLER: It was very useful that the Japanese finance minister and Governor Masaru Hayami made the presentation and informed colleagues and the IMFC about the discussion in Japan. After this, I have a bit more positive assessment of this decision to buy stocks. I see it now as part of a more comprehensive package of measures and a clear awareness that they have to do something to get rid of nonperforming loans. It is also clear that they are working on tax reform that could have a positive impact on investment and demand. I am encouraged after these meetings, and I expect Prime Minister Koizumi to outline the full package in the coming weeks.

QUESTION: What effect have the U.S. corporate scandals had on the World Bank and the IMF and its lending policies?

KÖHLER: It has had a great effect. We have had quite an intensive discussion about the need to improve corporate governance. There has been swift action, including legislative action, by the U.S. administration, and there was also agreement that, for instance, accounting rules should be harmonized at the international level. The IMF is, together with the World Bank, considering how we work further with our members on defining a standard and code regarding corporate governance that we would then be able to discuss with all our membership. So there is momentum to pursue it all over our membership.

QUESTION: Representatives from two major emerging markets expressed doubts about the establishment of collective action clauses and an SDRM.

KÖHLER: I am not surprised there is some skepticism over the details. The emerging market countries could fear that this has an additional cost. But I take from these discussions that there is a broad understanding about the absolute need to have a better mechanism for a timely, orderly, less costly way to restructure unsustainable debt. We will do this very carefully, very professionally. We will have further talks with emerging market country representatives, with the private sector, with experts. It is a further work process, but I do think it is a kind of breakthrough here—a recognition that there is a gap in the international financial architecture and the international community is well advised to close it. ■

All sides have their say on SDRM proposal

Representatives of the official sector, the financial community, and civil society met on September 27 at an Annual Meetings seminar, moderated by Jack Boorman, Counsellor and Special Advisor to the Managing Director, to debate the merits of the IMF proposal to create a sovereign debt restructuring mechanism (SDRM).

IMF First Deputy Managing Director Anne Krueger, widely credited with having triggered the current search for a more orderly and predictable means of resolving sovereign debt crises, opened the discussion with a pointed reminder about the unduly large costs that the current system imposes on debtors and creditors alike. We must, she said, find mechanisms that will allow countries with unsustainable debt burdens to reach agreement with their creditors in a timely manner while limiting the economic dislocation and loss of asset values. The increasingly diverse and diffuse creditor community has created problems of coordination and collective action.

To address these problems, Krueger said, the IMF is pursuing a twin-track, complementary approach that supports efforts by the Group of 10 and others working closely with the private sector to develop guidelines for the inclusion of collective action clauses in bond contracts; and elaborates on the SDRM proposal. The SDRM, she argued, would strengthen the architecture for debt restructuring by creating a more predictable framework within which a sovereign debtor and a supermajority of its creditors could make a number of decisions regarding restructuring.

In terms of coverage, Krueger noted that the preliminary thinking has been that only private creditor claims governed by foreign law would be covered by the SDRM. Debts covered by domestic law and official bilateral debt (for example, Paris Club) would be excluded. The IMF's role under the mechanism would be indirect and stem from its traditional financing responsibilities. Looking ahead, Krueger said that the IMF would be further developing the SDRM proposal, with the aim of designing a legal framework that could be considered by the membership at the spring 2003 meetings.

Paris Club perspective

Ambroise Fayolle, Vice-Chair of the Paris Club, noted that the Paris Club had yet to form an official position on the SDRM, but he supported pursuing the twin-track approach—modifying bond contracts to include collective action clauses and elaborating a statutory debt restructuring mechanism. He noted that the Paris Club faced neither disruptive creditor litigation nor a collective action problem, which distinguished its claims from those of the private sector. If official bilateral debt were to be brought into the SDRM, the Paris Club would need to modify its procedures and decision-making process, he added.

Private sector views

Robert Gray, Chair, Debt Financing and Advisory Group, HSBC Investment Bank, and Chair, International Primary Market Association; Richard Gitlin, President, Gitlin & Company; and Mohamed El-Erian, Managing Director, PIMCO, provided private sector perspectives and articulated differing views on the merits of the SDRM. Gray argued that the SDRM was the wrong way to go and indicated that the current debate was impeding efforts to forge a market-based solution to the problem, such as the collective action clauses that, in his opinion, were definitely preferable. He advocated changing bond contracts to include provisions whereby litigation can occur only when a designated trustee is so instructed by a qualified majority of creditors, as is the case currently under trust deed instruments issued in the London market.

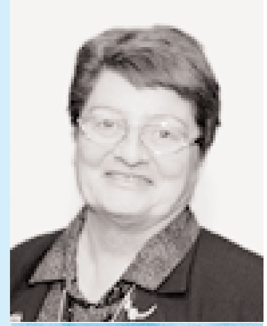
Gitlin welcomed the impetus that collective action clauses had received, but thought the SDRM warranted support because it afforded a more predictable framework that would help "lay the table" for negotiations. He also noted that the existence of an "in-court" mechanism would help facilitate "out-of-court" agreements. He favored including bilateral and domestic debt in the SDRM's coverage, with due recognition of the need for flexibility to take into account the specific circumstances of each creditor group.

The debate on the SDRM, El-Erian noted, has triggered an intense discussion on sovereign debt restructuring in the private sector and between the private and public sectors. There is now, he indicated, a convergence in the private sector on the role of collective action clauses in improving the process of sovereign debt workouts. It's still an open question, however, whether the benefits of SDRM per se would outweigh its costs—particularly once the other elements of crisis prevention and management have been put in place, notably, the introduction of collective action clauses, clarification of the policy on exceptional access to IMF resources, and modifications to IMF policy on lending into arrears. More generally, he welcomed the benefits of greater interaction between the private and public sectors.

Thomas Palley, of George Soros's Open Society Institute and formerly of the AFL-CIO, supported an SDRM that would include a mechanism to allow ordinary citizens to be involved in discussions on debt restructuring. This would be a partial remedy, he said, for the lack of democracy, transparency, and accountability that exist in governments. Palley also favored an SDRM that covered IMF loans, other than concessional loans, and that permitted loans extended to corrupt regimes to be written off when creditors should reasonably have known about the corruption.

In closing, Jack Boorman noted that, in the period ahead, the official community plans to continue working on the two-track approach. It is looking to maintain a dialogue with all players, especially the private sector, in developing collective action clauses. The IMF has been asked to elaborate on a more detailed SDRM proposal by the spring meetings. What is needed now, Boorman added, is constructive engagement by all parties in developing these proposals.

Sabina Bhatia
IMF External Relations Department



Krueger: The IMF is pursuing a two-track, complementary approach.

El-Erian: The debate on the SDRM has triggered an intense discussion between the private and public sectors.

IMFC communiqué

In face of downside risks, IMF members call for vigilance

Following is the text of the communiqué of the International Monetary and Financial Committee of the IMF's Board of Governors, issued on September 28.

The International Monetary and Financial Committee held its sixth meeting in Washington, D.C., on September 28, chaired by Gordon Brown, Chancellor of the Exchequer of the United Kingdom.

Global economy and financial markets

The Committee observes that the global economic recovery is proceeding, although at a slower pace than expected earlier this year. Growth is expected to strengthen in the near term, supported by a strong policy response across the international community. However, there remain downside risks and uncertainties, as well as medium-term challenges associated with persistent imbalances, underscoring the need for vigilance. IMF members should continue to be ready to adapt policies as necessary in order to foster broad and sustained growth, strengthen policy and regulatory frameworks, and support durable poverty reduction. The Committee underscores the importance of stability in oil markets at prices reasonable for consumers and producers.

Australia's Treasurer Peter Costello (left) speaks with Brazilian Finance Minister Pedro Malan before the IMFC meeting.

In the advanced economies, growth generally is expected to strengthen. However, monetary policymakers should remain ready to respond to developments where necessary and to ease policy further if the risk of economic weakness intensifies and inflation prospects remain subdued. In Japan, monetary easing should help end deflation. In many countries, there is scope for automatic stabilizers to operate, but fiscal policy needs to be attentive to the medium-term challenge of consolidation in order to ensure sustainable debt levels, improve the scope to respond flexibly to future economic shocks, and help address challenges such as those associated with population aging. Structural reforms should also be pursued vigorously to further improve growth prospects and strengthen resilience:

- In the United States, the actions under way to strengthen corporate governance, accounting, and auditing are important to underpin confidence.
- In Europe, further reforms, particularly in labor and product markets, are needed.
- In Japan, banking and corporate restructuring should be vigorously pursued, in particular addressing the issue of nonperforming loans.

Performance in emerging markets has been mixed, reflecting both global developments and domestic circumstances. While growth in Asia has picked up strongly, several economies in Latin America in particular are facing a deterioration in conditions due to external developments, country-specific vulnerabilities, and policy uncertainties. In countries that have room for maneuver, the policy stance should generally remain accommodative, but countries facing external financing difficulties will need to continue to give priority to restoring market confidence. The Committee welcomes Brazil's commitment to sound policies. It acknowledges the positive steps taken in recent months by Argentina to address its difficult economic situation and urges the authorities, in cooperation with the IMF, to move quickly to reach agreement on a sustainable economic program that could receive the support of the international financial institutions and provide the basis for the reestablishment of stability and growth.

Many of the developing countries have also been affected by global developments and adverse movements in commodity prices, as well as domestic circumstances. The Committee reiterates the need for sustained international efforts to fight poverty. The Global Development Compact embodied in the Monterrey Consensus and the Doha Development Agenda—based on mutual accountability, country ownership, sound domestic policies and institutions, good governance, increased and more effective international support, and commitment to an open multilateral trading system—was reaffirmed at the world summit in Johannesburg. The Committee looks forward to the effective implementation, with international assistance, of the New Partnership for Africa's Development to strengthen institutional foundations, governance, and infrastructure. Stressing the critical importance of technical assistance to support this effort, the Committee looks forward to the important contribution that the

African Regional Technical Assistance Centers will play. It also calls for urgent international assistance to address the human and economic toll exacted by the drought in southern Africa. It also stresses the positive role of the initiative for seven countries of the Commonwealth of Independent States (CIS-7 Initiative) in improving prospects for enhanced growth and reduced poverty.

The Committee underscores the vital importance for global growth and effective development of achieving substantial trade liberalization in the Doha Round of multilateral trade negotiations, which will benefit both developed and developing countries. Urgent progress is essential in enlarging market access for developing countries and phasing out trade-distorting subsidies in developed countries. Developing countries should also further liberalize their trade regimes to maximize growth and development opportunities. Trade-related technical assistance is also important to support developing countries' capacity building.

Strengthening crisis prevention, resolution

The Committee welcomes the Managing Director's report, "The IMF in a Process of Change," which sets out the reforms under way to make the IMF more effective in promoting greater financial stability and stronger global growth, the progress that is being made, and the agenda for the period ahead.

The Committee supports the steps taken by the IMF to improve the quality and effectiveness of its policy advice and to help countries strengthen policy frameworks and prevent crises. These are the key priorities for surveillance. In particular, the Committee

- stresses that rigorous vulnerability assessments will be key to the IMF's crisis prevention efforts, and, in this regard, welcomes the progress in improving the framework for assessing debt sustainability and looks forward to its application to all members;
- welcomes in this context the increased focus on the interactions between external shocks and domestic vulnerabilities, the strengthened focus on global capital markets in the IMF's multilateral surveillance, and the recent steps to further improve data provision by members to the IMF;
- emphasizes the importance of surveillance of systemically important countries and their impact on the global economy;
- supports the IMF's ongoing work to ensure that surveillance in program countries reassesses economic developments and strategy from a fresh perspective; and
- underlines the need for high-quality and persuasive surveillance of all member countries to help them act promptly to minimize emerging vulnerabilities and avoid policies that might have negative regional or global effects.

The Committee will review, at its next meeting, ways of further enhancing the effectiveness of IMF surveillance. It looks forward to further progress in the voluntary publication of country staff reports, building on the positive role that improved transparency and data dissemination by the IMF and its membership are playing in informing the public and supporting financial market assessments.

The Committee notes the substantial progress on the Financial Sector Assessment Program and the standards and codes initiative, including their increasing integration into IMF surveillance. It looks forward to the forthcoming reviews of these initiatives and calls on the IMF to consider ways to build on this progress, together with the World Bank and relevant standard-setting bodies, to address gaps, strengthen technical assistance, and promote broader participation. The Committee notes the importance of enhanced standards and principles on corporate governance, accounting, and auditing, and of stronger national practice. It also underscores the role that precautionary access to IMF financing can play in safeguarding sound policy frameworks in the face of uncertainty in international capital markets. The Committee looks forward to the forthcoming review of the Contingent Credit Lines.

Panitchpakdi Supachai, Director-General of the World Trade Organization, left, greets U.S. Treasury Secretary Paul O'Neill.

The Committee endorses the IMF's continuing work on private sector involvement and a stronger framework for crisis resolution to provide members and markets with greater clarity and predictability, including about the decisions the IMF will take in crisis management. In particular, the Committee welcomes the work under way to strengthen the policy on exceptional access to IMF resources. This involves more clearly defined criteria to justify exceptional access and strengthened procedures for early consultation and decision making. The priority now is to finalize and implement the new framework, and the Committee calls for a progress report by the spring meetings.

The Committee strongly welcomes the progress made with the contractual and statutory approaches to restructuring unsustainable sovereign debts. It welcomes the ongoing dialogue on collective action clauses

The HIPC Initiative has the flexibility to provide additional debt relief at the completion point to help countries that have suffered a fundamental change in their economic circumstances due to exceptional exogenous shocks.
–IMFC communiqué

in the Group of 10 and other forums with private creditors and emerging market sovereign issuers. Going forward, the Committee encourages the official community, the private sector, and sovereign debt issuers to continue working together to develop collective action clauses and to promote their early inclusion in international sovereign bond issues; in that regard, it welcomes the recent decision by many countries to include collective action clauses. The Committee also calls on the IMF to consider the issues further and to develop, for consideration at its next meeting, a concrete proposal for a statutory sovereign debt restructuring mechanism to be considered by the membership.

IMF's role in low-income countries

The Committee supports the IMF's continuing role in helping poor countries address the challenge of meeting the Millennium Development Goals by supporting economic reforms aimed at accelerating growth and reducing poverty. It welcomes the increased momentum in countries' efforts to develop and implement their poverty reduction strategy papers (PRSPs) and the IMF's and donors' efforts to align their support more closely with PRSPs. It recognizes that there may be a need to consider mobilizing new Poverty Reduction and Growth Facility (PRGF) resources if high demand for PRGF financing continues. The Committee stresses the importance of sound macroeconomic frameworks

Ali bin Mohammed bin Moosa (left), Deputy Chair of the Central Bank of Oman, speaks with Sheikh Salem Abdulaziz Al-Sabah, the Governor of Kuwait's Central Bank.

that can respond flexibly to changes in the external environment; identifying ways to encourage higher and sustainable growth; good governance; improving public expenditure and financial management systems; and using poverty and social impact analysis more systematically and building country capacity in this area. The Committee encourages the IMF and the Bank to continue their collaboration on these issues and looks forward to reviewing progress. Furthermore, it looks forward to considering the results of the IMF's work to better meet the diverse needs of its low-income members, including those stemming from disruptive exogenous shocks and emergence from conflict.

The Committee welcomes the progress made on the Heavily Indebted Poor Countries (HIPC) Initiative, allowing countries to benefit from lower debt servicing and higher social spending. It recognizes that significant challenges remain to ensure that countries achieve a lasting exit from unsustainable debt. The Committee reaffirms the commitment to implement the initiative and finance it fully to help countries overcome the burden of unsustainable debt, and underscores that the HIPC Initiative has the flexibility to provide additional debt relief at the completion point to help countries that have suffered a fundamental change in their economic circumstances due to exceptional exogenous shocks. These elements, together with sustained commitment to sound economic policies—including efforts to improve resilience to external shocks, manage debt prudently, and reinforce good governance—and new financing on appropriately concessional terms, should provide a basis for long-term sustainability. The Committee notes that the financing shortfall in the HIPC Trust Fund could be up to $1 billion and welcomes the recent pledges of support. It calls on other governments to make firm pledges and contributions as a matter of urgency. Furthermore, it urges all official and commercial creditors that have not yet done so to fully participate in the HIPC Initiative. The Committee acknowledges that the issues of HIPC-to-HIPC debt relief and creditor litigation raise serious issues that should be addressed.

Combating money laundering and financing of terrorism

The Committee welcomes the actions taken by many countries to combat money laundering and the financing of terrorism, in response to the action plan agreed to in Ottawa last year, and urges countries that have not fully responded to do so urgently. It also urges rapid progress on the exchange of information between authorities. The Committee commends the substantial progress made by the IMF, in close collaboration with the Bank, in advancing the action plan. It endorses the conditional addition of the Financial Action Task Force recommendations to the list of standards and codes for which Reports on the Observance of Standards and Codes (ROSCs) are prepared and looks forward to the final adoption of the methodology and an early start of the 12-month pilot program of assessments and accompanying ROSCs. The Committee encourages countries to make available additional experts and resources for the IMF–World Bank pilot program, welcomes the pledges made so far, and urges the IMF and the World Bank to coordinate closely with the strong international and bilateral efforts to provide critically important technical assistance. The Committee looks forward to an interim report at its next meeting and a full report at the conclusion of the pilot program.

Other issues

The Committee welcomes the adoption by the IMF's Executive Board of new guidelines on conditionality, thus bringing to a successful conclusion the review of conditionality initiated by the Managing Director two years ago. The consistent implementation of these guidelines will help enhance the effectiveness of IMF-supported programs by fostering national ownership and streamlining conditionality, focusing it on elements critical to the success of members' economic programs. The Committee stresses that strengthened collaboration with the World Bank is an integral part of these efforts to enable both institutions to provide complementary and effective support.

The Committee stresses the importance of the IMF having adequate resources to fulfill its financial responsibilities. Quotas should reflect developments in the international economy. The Committee notes that the Executive Board is continuing its consideration of the Twelfth General Review of Quotas and will present its report to the Board of Governors by January 2003. It recommends an early implementation of the Fourth Amendment.

The Committee welcomes the first report of the Independent Evaluation Office, "Prolonged Use of Fund Resources," to the Executive Board. It welcomes the establishment by IMF management of an internal task force to propose steps to carry forward the report's recommendations, as appropriate.

The next meeting of the IMFC will be held in Washington, D.C., on April 12, 2003. ■

IMFC press conference

Ministers agree on ways to better prevent and resolve financial crises

Following are edited excerpts from a joint press conference, at the close of the International Monetary and Financial Committee (IMFC) meeting on September 28, with IMFC Chair Gordon Brown and IMF Managing Director Horst Köhler. The full text of the press conference is available on the IMF's website (www.imf.org).

Brown: We meet here in Washington at a testing time for the world economy, with 20 countries accounting for half the world's output having been at some point in the past year or this year in recession. The committee as it met today recognized that, in part reflecting the determined international response, there are continuing indications that the recovery is proceeding, although at a slower pace than earlier this year. More than usually, the IMFC has enjoyed a full and thorough review of the world economy and the nature of risks and vulnerabilities.There was strong agreement, indeed broad agreement, on the need for vigilance and that we should stand ready to act if risks exist.

On the world economy, first of all, while remaining vigilant, there was a strong sense of common purpose. We agreed on a common course of action to maintain the conditions for stability and growth in the world economy. Indeed, we are agreed on the contributions that each of our continents should make. In the United States, actions are under way to strengthen corporate governance, accounting, and auditing. In Europe, we agreed that further reforms in labor and product markets are needed. In Japan, we agreed that banking and corporate restructuring should be vigorously pursued. We are now more than ever aware of our interdependence and that it is only by each country taking necessary action that we shall secure the economic growth we wish to see.

Brown (right): "There is an imperative to shape a new deal between developed and developing countries so that all countries can share in the benefits of globalization."

Second, on the world economy, particularly on the problem of emerging markets, we are agreed on the need to strengthen the mechanisms for crisis prevention and crisis resolution. On crisis prevention, we agreed on the need for increasing integration into IMF surveillance of codes and standards, and in particular of the importance of enhanced standards and principles on corporate governance, accounting, and auditing, and of stronger national practice.

On crisis resolution, where we had a discussion during the course of this morning and at lunch, we agreed to continue to work together on a two-track approach for the official community, the private sector, and sovereign debt issues to continue to work together to develop collective action clauses, and we called on the IMF to develop a concrete proposal for consideration at our next meeting of a statutory sovereign debt restructuring mechanism (SDRM).

Third, we are united in our belief that, at this time of economic recovery, there is an imperative to shape a new deal between developed and developing countries so that all countries can share in the benefits of globalization. Specifically, the committee has reaffirmed its commitment to the full financing of the Heavily Indebted Poor Countries (HIPC) Initiative. We noted that the financing shortfall in the HIPC Trust Fund could be up to $1 billion and called on donor governments to make firm pledges and contributions as a matter of urgency. Over the past two days, 15 countries have pledged support, and I expect further announcements to be made in the coming days.

Köhler (left): "The SDRM will not undermine the credit culture in the global economy—that is, credits have to be paid back."

Finally, we are united in our belief in the importance for global growth and effective development of achieving substantial trade liberalization at the Doha Round of multilateral trade negotiations. We are agreed on the need for urgent progress in enlarging market access for developing countries and phasing out distorting trade subsidies in developed countries. Today we are setting a common course of action. We enter a period of implementation in a broad program of reform in our international institutions as well as in domestic economies. Indeed, there was strong agreement that it is only through international cooperation based on common purpose that we will maintain the conditions for stability and growth that will ensure that the benefits of global prosperity are shared by all.

I think that the IMF—its staff, Executive Board, and management—can take this meeting as an endorsement of its stance and as encouragement to continue with the ideas and the work program that have been defined. And, very important, I sense from this meeting that there is cohesion in the international community to face the challenges and find appropriate responses.

Question: There is a great deal of opposition to the Krueger plan for sovereign debt restructuring. Is it the intention to pursue it in the teeth of private sector opposition?

Brown: The IMFC welcomed the recent decision by many countries to include collective action clauses and called on the IMF to consider the issues further and, for our April meeting next year, to develop a concrete proposal for a statutory sovereign debt restructuring mechanism to be considered by the membership.

Köhler: The IMF in its further work will, of course, continue and even intensify the outreach with the private sector and others involved.

Question: What are the specific issues on the sovereign debt restructuring mechanism that you want to see the IMF address as it works out its proposal over the next six months?

Köhler: The sovereign debt restructuring mechanism is part of an integrated concept for better crisis prevention. It is intended to strengthen the international financial architecture and, in particular, have better instruments within the IMF to support countries rapidly, with a high degree of automaticity through financial support in case there is a turbulence or a shock they have no influence on. So this is a bigger discussion, not just about the SDRM.

This bigger context also makes clear that the SDRM will not undermine the credit culture in the global economy—that is, credits have to be paid back. It is a last resort and fills a gap in the financial architecture. Among the specific questions we are working on, the most important is to make clear how the decision making about collective action is organized. Our suggestion is that the sovereign debtor and the supermajority of creditors make this decision, not the IMF. Second, we need to go into detail on the kind of dispute settlement that we organize. Our idea again is that it is not the IMF that is in this business, but a small group of independent, very experienced experts. Third, we need, of course, to sort out further the scope of the debt involved in a restructuring operation. We need to discuss with the Paris Club, for instance, how official bilateral debt is handled in this. The IMF has a lot to do and there is a lot of further discussion. I look forward to putting forward to the IMFC something for further consideration after more hard work.

QUESTION: How short are we in terms of meeting the Millennium Development Goals, and what do you propose to do about it? One proposal is that the IMF should be able to issue special drawing rights temporarily to meet any special needs and retire them when the needs are met.

KÖHLER: The IMFC endorsed the IMF's participation in the international effort to fight poverty. This is based on the two pillars defined in Monterrey and Johannesburg—one of countries' self-responsibility for good governance and creating a good investment climate, and the other for better, faster, more comprehensive support from the international community. The IMF is exercising this mainly through the poverty reduction strategy papers, by working hard to implement further the HIPC Initiative, and by implementing now the review of our conditionality concept, which means streamlining and focusing conditionality, and on this basis working to strengthen country ownership. I also made clear that the governors have endorsed that the IMF should be part of the process of monitoring the achievement of the development goals. The concept for that needs to be worked out, and here I see the World Bank in the lead. Regarding SDRs, that was not an issue discussed here.

BROWN: I think everybody wanted to welcome the progress in Doha, in trade negotiations that will help developing countries, in European and U.S. pledges of an extra $12 billion for aid by 2006, in the new International Development Association agreement, and in debt relief, where 15 donor countries have pledged to help meet the shortfall in the HIPC Trust Fund. I think the Trust Fund can move forward with great confidence.

QUESTION: Can you tell us how much these 15 countries have actually pledged toward the HIPC Trust Fund shortfall?

BROWN: Of the 15 countries, some have actually given us the exact figure they will put in, some have indicated they will do it as a percentage, and some are returning to us shortly with the absolute figure they are going to give. But I am confident that if we can add to these 15 countries, then we are in a position to meet that commitment. This has been a great success; I believe it shows that the world community, even in a time of difficulty, is prepared to come together to meet obligations that I know large numbers of people in the developing world—indeed, large numbers of campaign groups, including the churches around the world—want us to meet.

QUESTION: Mr. Managing Director, both you and Ms. Krueger have expressed confidence in the past few days about the situation in Brazil, but the markets keep going down and down and down. Why do you think the situation is going to turn around after the election? Aren't the markets putting the country in a completely impossible situation? Does this situation convince you that some approach involving IMF rescues that include comprehensive restructuring of the debt is the way to go?

KÖHLER: I do not think that markets are concentrated on Brazil. Markets are in general nervous, irritated, in confusion. And the causes for this volatility vary from the oil market, to questions about whether the worst is behind us with the corporate scandals, to possible vulnerabilities in emerging market countries. This is not a special Brazil-driven development.

I expressed my confidence that Brazil will see a smooth transition because of facts. First, this country has a huge potential for growth, job creation, and trade. Second, this country has, in principle, seen in the past year a remarkable improvement in its economic, financial, and monetary fundamentals. The endorsement by the major candidates of the crucial elements of the IMF work program with Brazil is, for me, a further confirmation that the most likely outcome of this will be a smooth transition and that Brazil will come out of this situation without a debt restructuring because it has the potential for growth and servicing its debt. ■

IMF launches foreign direct investment website

On October 2, the IMF launched a website on statistical practices relating to foreign direct investment. The new website (www.imf.org/external/np/sta/di/mdb97.htm) is designed to meet the needs of a wide range of users, including researchers, financial analysts, and journalists.

The website, which provides information on the statistical practices of 55 countries, has two main sections:

- For each country, metadata describe data availability, data sources, compilation practices, and methodology used to compile the data.
- Cross-country comparison tables summarize, by issue, the practices of the 55 countries.

The website's information is based on a 2001 survey conducted jointly by the IMF and the Organization for Economic Cooperation and Development. Descriptions of country statistical practices have been verified by country authorities; statements about whether a country's practices are in accordance with international standards for compiling foreign direct investment data are based on the judgment of IMF staff.

The full text of IMF Press Release No. 02/102 on the new website is available on the IMF's website (www.imf.org).

I also made clear that the governors have endorsed that the IMF should be part of the process of monitoring the achievement of the development goals.
—Horst Köhler

Development Committee communiqué

Ministers chart course for eradicating poverty, achieving sustainable growth

Following is the text of the communiqué issued by the Development Committee in Washington, D.C., on September 28.

Jassim Al-Mannai (left), Director General, of the Arab Monetary Fund, greets Fathallah Oualalou, Morocco's Minister of Finance, Economy, Privatization, and Tourism.

We met today to discuss implementation of the strategies and decisions agreed on in Monterrey and Johannesburg and achieving debt sustainability for heavily indebted poor countries.

At our meeting last April, we welcomed the very important progress achieved in Monterrey, laying out a new partnership between developed and developing countries, based on mutual responsibility and accountability, to achieve measurable improvements in sustainable growth and poverty reduction. We welcomed the announcements by a number of donors of significant increases in their official development assistance.

JIN Liqun (left), China's Vice-Minister of Finance, confers with Clare Short, U.K. Secretary of State for International Development.

Earlier this month, the World Summit on Sustainable Development concluded in Johannesburg with a number of decisions that provide additional direction to our task of eradicating poverty and achieving sustainable development. A series of important commitments were made in the areas of water and sanitation, energy, health, agriculture, biodiversity, and ecosystem management, accompanied by the launch of implementation initiatives.

Today, we committed ourselves with new vigor and determination to implementing the agreed strategies and partnerships and to use our future meetings regularly to review progress through clear and measurable indicators. Building on the outcomes of Monterrey and Johannesburg, we also intend to have further discussions on global public goods.

The global community must now convert the ideas and the shared approaches agreed on in Doha, Monterrey, and Johannesburg to concrete action and measure ongoing progress. Experience has repeatedly shown that progress will be made only through implementation of sound and sustainable country-driven strategies. To make existing and new aid commitments more effective, these strategies must also be supported by better coordination and cooperation among development partners and by effective alignment of donor support with country strategies. We underline our commitment to work together, and with civil society and the private sector, under the leadership of the government concerned in a coherent way to achieve concrete results.

We reaffirmed the crucial importance of trade as a source of growth and poverty reduction. We recognized that it is essential for developed countries to do more to open their markets and eliminate trade-distorting subsidies for products that represent major potential exports for developing countries, such as agriculture, textiles, and clothing. At the same time, we recognized the importance of continued efforts toward trade liberalization in developing countries as part of an overall development strategy, in conjunction with the necessary policies and capacities that facilitate an appropriate supply response and minimize the adjustment burdens on the poor. We therefore welcomed the increased attention to trade issues in the work of the World Bank and the IMF in support of a successful Doha Development Agenda. We urged intensified efforts to mainstream trade in the development dialogue with the Bank's members, with an enhanced operational focus on building both institutional and physical capacity to help developing countries take advantage of new trade opportunities.

Last April, we endorsed a World Bank plan to help make primary education a reality for all children by 2015 and gender equality in primary and secondary education by 2005. Today, we reviewed implementation of the Fast-Track Initiative and requested for our next meeting a progress report on results achieved. In addition, we considered the challenges of scaling up activities in HIV/AIDS/communicable diseases and in water and sanitation. We urged the World Bank to pursue its work in these areas.

We endorsed the overall approach set out for discussion today for making results central to the management of development programs in both developing countries and development agencies. We urged the Bank to expedite implementation of the action plan for increasing its results orientation and to intensify its work with multilateral and bilateral partners to share information on planned and ongoing country development activities, including diagnostic work and operational support, as a basis for enhanced alignment of donor support for national development strategies. We also urged increased use of joint evaluations of donor programs, especially for country and sector program support, to complement assessments of individual agencies' performance, including as development partners. We highlighted the need for increased and coordinated donor support for capacity building, including for results-oriented monitoring and evaluation and statistics. We asked the Bank to report on these efforts at our next meeting.

We recognize the need for intensified efforts to harmonize operational policies and procedures of bilateral and multilateral agencies at the institutional and country levels so as to enhance aid effectiveness and efficiency and promote greater ownership by developing countries. We committed ourselves to further action in streamlining such policies, procedures, and requirements over the period leading to the high-level forum scheduled for February 2003 and beyond in Rome.

Recognizing the special challenges faced by Africa in meeting the Millennium Development Goals, we urge the Bank and the IMF to scale up assistance to these countries and to build on the New Partnership for Africa's Development initiative as a unique opportunity to make significant and quick progress building on African leadership.

Our discussions have reinforced our conviction that major progress on achieving the Millennium Development Goals is possible. What is needed now is determined implementation of agreed strategies and partnerships on the part of both developed and developing countries, as well as multilateral agencies and the setting out of a clear framework identifying responsibilities and accountabilities by which progress can be regularly measured. The Development Committee intends to contribute to moving this implementation agenda forward through regular monitoring and review of the policies, actions, and outcomes needed to achieve these goals. We request the Bank and the IMF to present proposals at our next meeting for taking this forward while recognizing the role of the United Nations in monitoring the Millennium Development Goals.

The Monterrey summit also stressed the importance of greater coherence, coordination, and cooperation among multilateral organizations and the need to broaden and strengthen participation in international decision making and norm setting of developing countries and economies in transition. The summit encouraged the World Bank and the IMF to find pragmatic and innovative ways to further enhance participation by these countries and thereby to strengthen the international dialogue and work of these institutions. We requested the Bank and the IMF to prepare a background document to facilitate consideration of these important issues at our next meeting.

Trevor Manuel, Development Committee Chairman and South African Finance Minister, speaks at a press conference as World Bank President James Wolfensohn looks on.

We welcomed the continued progress made on the Heavily Indebted Poor Countries (HIPC) Initiative and reconfirmed our commitment to its implementation and full financing. We fully support the objective of helping our poorest, most heavily indebted members achieve an enduring exit from unsustainable debt, but we recognize that considerable challenges remain. Success will require a sustained commitment by HIPCs to improve domestic policies and economic management; capacity building for the management of financial assets and liabilities; full participation and delivery of relief by all affected creditors; and adequate and sufficiently concessional financing by international financial institutions and the donor community. We call upon all official and commercial creditors that have not yet done so to fully participate in the HIPC Initiative. We have asked the Bank and the IMF to undertake an early review of the difficult issues of HIPC-to-HIPC debt relief and creditor litigation. We stressed

Awaiting the beginning of the Developing Committee session are Francis Mer (left), France's Minister of Economy, Finance, and Industry, and Canada's Finance Minister John Manley.

the urgency of meeting the financing shortfall of the HIPC Trust Fund, which could be up to $1 billion. We welcome the recent announcements of support and call upon other donor countries to make firm pledges and contributions as early as possible. At the same time, we reaffirm our commitment to ensuring that the cost of debt relief to the International Development Association (IDA) is not permitted to compromise IDA's resources, and we note the arrangements in place to accomplish this objective.

We reviewed further experience with poverty reduction strategy papers (PRSPs), which confirmed the broad findings of the joint Bank–IMF review earlier this year. The Committee is encouraged by the increased momentum in countries' efforts to develop and implement their PRSPs. We call on the IMF and the Bank, together with all donors, to align their support with country PRSPs and to collaborate with each other to strengthen their analysis of the sources of growth; streamline conditionality; help countries improve their public expenditure management systems; facilitate an environment conducive to private sector development; and intensify efforts to help countries undertake poverty and social impact analyses on a more systematic basis.

Finally, we reviewed the role being played by the Bank and the IMF, in collaboration with other international institutions, in anti-money-laundering efforts and efforts to combat the financing of terrorism (AML/CFT). We endorse the conditional addition of the Financial Action Task Force on Money Laundering's 40+8 Recommendations to the list of international standards and codes useful to the operational work of the Bank and the IMF, and the conditional beginning of the 12-month pilot program of comprehensive AML/CFT assessments and accompanying Reports on the Observance of Standards and Codes (ROSCs), in accordance with the voluntary, cooperative, and uniform approach. We encourage the Bank and the IMF to continue to integrate these issues into their diagnostic and surveillance work in line with their respective mandates and to enhance their technical and capacity-building efforts.

We express our deep condolences to the family of the late Bernard Chidzero, former Minister of Finance of Zimbabwe. Minister Chidzero served with great skill and distinction as Chair of the Development Committee from 1986 to 1990.

The next meeting of the Development Committee will be held in Washington, D.C., on April 13, 2003. ■

IMF and African Capacity Building Foundation pledge close cooperation

In the foreground, at the signing ceremony for the memorandum of understanding between the African Capacity Building Foundation (ACBF) and the IMF, are Soumana Sako, Executive Secretary of the ACBF, left; Kwesi Botchwey, Chair of the ACBF, center; and IMF Deputy Managing Director Eduardo Aninat.

On September 28, Eduardo Aninat, IMF Deputy Managing Director, and Soumana Sako, Executive Secretary of the African Capacity Building Foundation (ACBF), signed a memorandum of understanding between the two institutions on their future collaboration.

The ACBF is the implementation agency for the Partnership for Capacity Building in Africa (PACT) and a leading African institution in partnership with the development community in the building of sustainable capacity throughout the African continent.The IMF and the ACBF will work closely primarily on training activities related to capacity building and on strengthening knowledge networking in Africa in the areas of the IMF's core competencies.

Close collaboration with the ACBF and the PACT is part of the IMF's new Africa Capacity-Building Initiative, under which the IMF increases its technical assistance to the African continent while focusing it more squarely on capacity building. Under this initiative, the IMF will also establish African Regional Technical Assistance Centers (AFRITACs) to provide capacity-building assistance through a team of resident experts, supplemented by short-term specialists in the core areas of the IMF's expertise, including macroeconomic policy, monetary and exchange rate policies, financial sector policies, tax policy and revenue administration, public expenditure management, and macroeconomic statistics. The AFRITACs will work closely with the ACBF, the African Development Bank, the World Bank, and donor partners. The first AFRITAC will open this fall in Dar es Salaam, Tanzania.

African finance ministers

Africa is shifting emphasis to homegrown solutions

African finance ministers held a press briefing on September 28 in Washington to discuss IMF- and World Bank–related issues of particular concern to their countries. Participants were Martin Ziguele, Prime Minister in Charge of Finance of the Central African Republic; Ali Badjo Gamatie, Niger's Minister of Finance; Rigobert Andely, Minister of Finance of the Republic of the Congo; Júlio Marcelino V. Bessa, Angolan Minister of Finance; Timothy T. Thahane, Minister of Finance and Development Planning of Lesotho; and Luisa Dias Diogo, Minister of Finance of Mozambique. Lucie Mboto Fouda of the IMF's External Relations Department moderated. The following is a summary of the press briefing. The full text is available on the IMF's website.

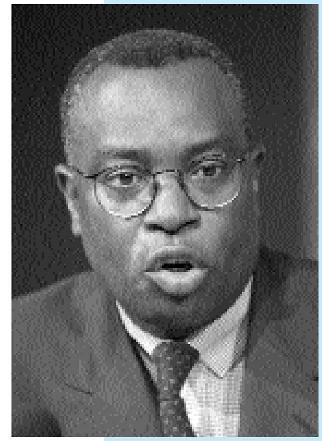
The finance ministers concentrated on a few issues that seem sometimes to be inextricably linked: African development strategies, the effect of the Middle East situation on Africa, debt relief, and corruption. Overall, the participants struck a hopeful note, emphasizing Africa's readiness to take its fate into its own hands. But they also noted that solving Africa's problems required international cooperation and new partnerships.

Greater ownership of reforms

The perennial question of what is being done to raise the standard of living in Africa was among the first to arise. In response, Rigobert Andely emphasized that Africans are "beyond the stage of waiting, of putting out their hand for help." This spirit is reflected in the New Partnership for Africa's Development (NEPAD), the main vehicle for reducing poverty on the continent. Based on trade as partnership, NEPAD is a framework for homegrown development programs through which Africans can cooperate with the Bretton Woods institutions and donors so that everyone benefits. What makes it different from previous initiatives is that it calls for greater ownership of reforms by African leaders; greater commitment among countries organizing the issues; and the introduction of peer review, to be developed by Africans.

Ali Badjo Gamatie appealed for fairness on the trade issue. If the developed countries did not subsidize cotton, he noted, countries like Benin, Burkina Faso, and Malawi would earn $250 million more this year. He understood that an emotional dimension was attached to agricultural products in the United States and Europe, which subsidize their farmers because they can afford to do so. But, Gamatie said, things could be done differently—not on the price side, which should be left to the market, but on the revenue side. Unlike in the United States, European countries use their budgets to provide their farmers with revenue, which leaves prices alone and is less damaging to African commodity exporters.

But is Africa strong enough to compete against the rest of the world if all tariffs and subsidies, including those on the continent, are lifted? Júlio Marcelino V. Bessa answered affirmatively. "African countries," he said, "are prepared to face international competition and have been since their tariff barriers were lowered." They have the capacity to produce raw materials, basic commodities. They are thus in a position to succeed, to a certain extent, in establishing democracies and reforming structural systems, but also in strengthening productive capacity.



Rigobert Andely

Ali Badjo Gamatie

Middle East impact

One questioner noted that U.S. President George W. Bush had met in early September with the leaders of African oil-producing countries. There is a concern, he said, that the United States is looking for another source of oil to lessen its dependence on the crisis-affected Middle East. If that happens, he suggested, Africa will face more competition for aid resources, and those countries that do not have oil will be marginalized in the development process.

Martin Ziguele responded that non-oil-producing African countries had also attended the meeting, whose purpose was less to discuss oil questions than how to bring about peace in central Africa. Central Africa, he said, is one of the continent's richest regions but one that has, unfortunately, suffered from many crises. Andeley noted that another way that the Middle East crisis would affect Africa was through higher oil prices, given that most African countries are net oil importers. But Africa is producing oil, he said, and if people come to develop it, "we'll get revenue, and that is good for development."

Martin Ziguele

Luisa Dias Diogo

Timothy Thahane

Debt relief

Responding to a question about the shortfall in the financing of the Heavily Indebted Poor Countries (HIPC) Initiative, Gamatie observed that the HIPC Initiative is a two-pillar approach—a bargain between two sides. Poor countries, he said, do not simply say they are entitled to debt relief: they must meet certain conditions. Africa has done this and now expects the IMF and the World Bank to do their share. Luisa Dias Diogo denied that the HIPC Initiative was a failure. "We should divide HIPCs into two groups—those that have reached their decision points and are aiming for the completion point and those that have benefited from the initiative. For the first group, she said, the HIPC Initiative needs to be improved and strengthened—in particular, measures are needed to bring countries to the completion point faster. She also called for flexibility on conditions, in terms of countries' eligibility for the completion point.

No monopoly on corruption

Participants had much to say about corruption, both in Africa and elsewhere. Timothy Thahane opened by saying that debt relief must be separated from corruption. "Debt relief is justified whether or not there is corruption in a country." That said, he noted that Africans are "committed to eliminating corruption because it is in our development interests." But this requires cooperation, he said. "What do you do with the international co-corrupters or co-conspirators? We can deal with one partner, but somebody has to deal with the other one. We expect the world to do its part."

Ziguele acknowledged that Africa has bloody and corrupt regimes, as well as virtuous opposition to them. What happens in Africa, he said, "is that those who believe in democracy and the power of the people meet the periphery, those who believe that there can be shortcuts to power. This is a reality we must address. We must all ensure that African elites, leaders, accept the theory based on respect for the results of elections and for everyone to await their turn." But, he stressed, "it is not simply African leaders who are corrupt. Proposals for corruption also come from elsewhere. Corruption is a form of gangrene, which is linked to poverty, low salaries, irregularities."

Concurring with Ziguele, Gamatie said that "one speaks of corruption only in Africa, but Africa is not the only corrupt continent. It is an international phenomenon." Nonetheless, he acknowledged that Africa needs laws and rules, and these are beginning to take shape.

A new wind blowing?

More than one finance minister noticed a major change in the policies of Western countries and in their attitudes toward Africa, including "a willingness to understand African problems and not see Africa as a single country." On democracy, Bessa said that all Africans favor democracy but are opposed to being forced to work too quickly and face conflicts of interest. The NEPAD initiative, he concluded, could contribute to the solution of some of Africa's problems. There is an enormous outpouring of good political will on the part of African countries, and, if NEPAD finds the necessary support among the Western powers, Africa will be able to enter into a period of greater stability. ■

David Burton to head IMF's Asia and Pacific Department

IMF Managing Director Horst Köhler on September 30 appointed David Burton to head the organization's Asia and Pacific Department. Burton, who succeeds Yusuke Horiguchi, is a U.K. national and has 21 years of experience in the IMF. In the course of his career, he has served in the IMF's Middle Eastern, Asia and Pacific, and Policy Development and Review Departments as well as Advisor to the IMF's First Deputy Managing Director. He studied at London School of Economics and University of Manchester and holds a doctorate in economics from University of Western Ontario.

Köhler noted that "in David Burton we have what we need for the Asia and Pacific Department. In the six years he spent in that department, he worked, among other countries, on India, China, and the Philippines. In late 1997, he was closely involved with the Korean debt restructuring operation and in the spring of 1998 he became co-chief of our missions to Indonesia."

The full text of IMF Press Release No. 02/47 is available on the IMF's website (www.imf.org).

Group of Seven communiqué

Major industrial countries pursuing better corporate disclosure and accountability

Following is the statement issued by the Group of Seven finance ministers and central bank governors at the conclusion of their meeting in Washington, D.C., on September 27.

Economic growth in our countries is continuing, though at a more moderate pace than earlier this year. We recognize that risks remain. We are committed to sound economic policies and structural reforms and to working together to improve corporate disclosure, enhance corporate accountability, and strengthen the independence of auditing. We are confident that these policies, accompanied by continued vigilance and cooperation, will strengthen growth in the coming months and thus support sustained expansion. We will continue to monitor exchange markets closely and cooperate as appropriate.

Many emerging markets, buttressed by progress toward sound domestic policy frameworks, are managing well in the current environment. But some face considerable challenges. We urge all countries to implement strong policies to restore sustained growth and reduce external vulnerabilities. We welcome Brazil's continued commitment to sound policies and are ready to support Argentina, through the IMF, in the context of a sustainable program.

We are implementing the Group of Seven April Action Plan on crisis prevention and resolution. We continue to work with the IMF to improve our tools for crisis prevention. We also will continue to work with the IMF to implement criteria and procedures to limit official sector lending to normal access levels except where extraordinary circumstances justify an exception. Important progress has been made toward a market-oriented, contractual approach to sovereign debt restructuring. We welcome the private sector's and issuing countries' support for placing collective action clauses in sovereign bond issues. We agree that any sovereign that issues bonds governed by the jurisdiction of another sovereign should include such clauses. We welcome the work done to date by the IMF on a statutory sovereign debt restructuring mechanism and look forward to considering a concrete proposal at its spring meeting.

We reaffirm our strong commitment to combating terrorist financing. We applaud the agreement by the IMF and the World Bank on a comprehensive methodology to conduct assessments of the Financial Action Task Force's (FATF) anti-money-laundering and terrorist financing recommendations and look forward to the formal endorsement of this methodology at the FATF's upcoming plenary. We urge the FATF to develop guidance on combating the abuse of nonprofit organizations, alternative remittance systems, and fund transfers, as well as on making measures for freezing assets more effective. We call on the IMF, the World Bank, and the UN to work with the FATF in its identification of jurisdictions that require assessments and technical assistance. We also reviewed developments on procedures to exchange bank and other information for all tax purposes, and we are united that further progress is required by some countries.

We support increased development assistance based on good policy performance and measurable results. We support the calls made at Monterrey and Johannesburg to combat global poverty and promote sustainable development, growth, and fiscal sustainability through a new and effective partnership between developed and developing countries. We welcome the International Development Association, African Development Fund, and Global Environment Facility replenishments, which should make available $30 billion to developing countries, in particular in Africa. We are following through on the Kananaskis commitment to bear our share of the shortfall of up to $1 billion in the financing of the Heavily Indebted Poor Countries Initiative. Each of us will be stating our contribution in the near future and call on other creditor countries to join us. We urge developed and developing country members of the World Trade Organization to make substantial progress in multilateral trade negotiations and to reduce significantly trade barriers to global economic growth and poverty alleviation.

We call on international donors to expedite the delivery of assistance that supports the budget of the government of Afghanistan and that achieves visible reconstruction. ■

German Finance Minister Hans Eichel (left) and French Finance Minister Francis Mer enter the Group of Seven meeting.

Group of 10 communiqué

Industrial country officials weigh better crisis resolution tools

Alan Greenspan, Chair of the U.S. Federal Reserve, left, with Bank of Japan Governor Masaru Hayami, center, and Bundesbank President Ernst Welteke.

Following is the communiqué issued by the finance ministers and central bank governors of the Group of 10 after their meeting in Washington, D.C., on September 27.

The finance ministers and central bank governors of the countries of the Group of 10 met in Washington, D.C., on September 27, 2002. Didier Reynders, the Minister of Finance of Belgium and the current head of the Group of 10, chaired the meeting. Ministers and governors took note of reports from Henk Brouwer, Chair of the Deputies of the Group of 10; Mervyn King, Chairman of Working Party 3 of the Organization for Economic Cooperation and Development; and Andrew Crockett, General Manager of the Bank for International Settlements.

Didier Reynders (left), Chair of the Group of 10, confers with Pedro Solbes Mira, European Union Commissioner for Economic and Monetary Affairs.

Ministers and governors discussed procedures for the orderly and expeditious resolution of sovereign debt crises in a manner beneficial to both debtors and creditors. They stressed that crisis prevention and sound macroeconomic policies are the first line of defense. They welcomed the progress made on both the contractual and the statutory approach and agreed that contractual and statutory approaches are complementary and mutually reinforcing in developing effective crisis resolution procedures. They agreed that suitably crafted provisions in sovereign debt contracts would greatly enhance sovereign debt resolution and foster the orderly expansion of the market for emerging market debt.

Ministers and governors reviewed progress made in developing—with input from market participants—provisions that would facilitate the orderly restructuring of sovereign bonds governed by the laws of the major jurisdictions. They welcomed the work of the Group of 10 working group on contractual clauses. They concluded that the contractual provisions should aim at fostering early dialogue, coordination, and communication between creditors and sovereigns; helping to ensure effective means for creditors and debtors to agree to restructuring, when necessary, through collective action; and helping to ensure that disruptive legal action by individual creditors does not hamper sovereign debt workouts under way.

They welcomed the announcement of the European Union member states that they intend to include appropriate contractual provisions in the new government bonds that they issue under a foreign jurisdiction. Ministers and governors noted the importance of making rapid progress in incorporating suitable collective action provisions in the external bonds of sovereign emerging market issuers. In that context, they stressed the importance of close and collaborative work between the Group of 10, the private sector, and the emerging market economies. The objective of this collaboration is to make it common practice to include collective action clauses in sovereign bonds issued in foreign jurisdictions.

Ministers and governors reviewed the role that regulatory, tax, and disclosure policies play in shaping conditions in asset markets, alongside more conventional factors, such as macroeconomic policies and liquidity. They noted the value of considering the impact of regulatory, tax, and disclosure policy on asset price dynamics. In this context, they underscored the importance of robust financial systems and effective regulatory oversight for helping to ensure financial stability.

Ministers and governors reviewed the General Arrangements to Borrow (GAB) and endorsed the proposed renewal of the GAB without modifications for a further five-year period from December 26, 2003.

The Minister of Finance of Canada, John Manley, was elected Chair of the Group of 10 for the coming year. ■

Group of 24 communiqué

Developing countries worry about worldwide credit crunch

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 at the conclusion of their meeting.

Ministers of the Intergovernmental Group of 24 on International Monetary Affairs and Development held their sixty-eighth meeting in Washington, D.C., on September 27. Mallam Adamu Ciroma, Minister of Finance, Nigeria, was in the chair, with Fuad Siniora, Minister of Finance, Lebanon, as First Vice-Chair, and Ewart Williams, Governor of the Central Bank of Trinidad and Tobago, as Second Vice-Chair. The meeting of the ministers was preceded on September 26 by the eightieth meeting of the deputies of the Group of 24, with Thelma A. Iremiren of Nigeria as Chair.

Global economic prospects

Ministers note that the current outlook for the world economy has deteriorated since they last met in April 2002, and the risks to the strength and sustainability of the global recovery have shifted predominantly to the downside. They are concerned by the sluggishness of domestic demand in major industrial countries, the persistence of deflationary pressures in Japan, and the potential for their spreading to other countries. The continued decline in global equity markets and fragility of investor confidence in international capital markets have tightened financing conditions in emerging markets and intensified the risks of a worldwide credit crunch. Developing countries have made significant progress in reforming their economies and in adopting sound and growth-oriented policies. However, ministers are concerned about the slow pace of resolution of conflicts in several countries, the effects of the decline in commodity prices, and the depredations of drought and disease in a number of sub-Saharan African countries. Moreover, contrary to earlier expectations, the persistent difficulties in Argentina have spilled over into neighboring and other countries. The oil market is being subjected to increasing volatility by concerns about a further deterioration in the security situation in the Middle East, despite OPEC [Organization for Petroleum Exporting Countries] efforts to maintain stability in oil prices.

Ministers draw attention to the severe effects on confidence of the general decline in equity prices, amid concerns about corporate governance problems, which could have far-reaching implications for the prospects for global growth. Ministers call for prompt and decisive actions in the United States, including through the effective implementation and enforcement of corporate governance legislation, to restore investor confidence. They also call for a further easing of monetary conditions if the fragile recovery does not gain momentum. Ministers call for growth-oriented structural reforms in the euro area and encourage a more flexible interpretation of the fiscal constraints of the Stability and Growth Pact. Undue concern with inflation should not be allowed to derail the nascent recovery in the euro area. In Japan, monetary policy should be supportive of recovery, and structural reforms should be accelerated, especially in the banking sector.

Mallam Adamu Ciroma, Chair of the Group of 24, makes a point at a press conference.

Ministers are particularly concerned about the sharp tightening of financing conditions for emerging markets that have contributed to the deterioration of the economic situation, especially in several Latin American economies. While current difficulties in some countries are partly the result of underlying economic vulnerabilities, ministers draw attention to the risks posed by the volatility of capital flows and the exchange rates of the major international currencies. They call for improved international cooperation to address these volatilities and to mitigate their negative repercussions.

Fuad Siniora, Finance Minister of Lebanon.

Ministers reiterate their grave concern at the loss of lives and the catastrophic situation in the Palestinian territories. They greatly regret the recent deterioration in the situation and the continued destruction of capital and infrastructure provided to the Palestinian people and Authority by the international community, including the World Bank. They note the great human and economic ramifications of this grave situation for the

Palestinian people and the region in general. They call on the World Bank and the international community to redouble their efforts to provide badly needed humanitarian aid and to help the Palestinian people rebuild their infrastructure and institutions.

Trade

Ministers note the continued depressed level of commodity prices and the persistence of protectionist practices in industrial countries in such areas as textiles and clothing, agriculture (including farm subsidies), and steel, and the excessive recourse to antidumping measures against more efficient competitors, which have intensified the difficulties that many developing countries are facing in a sluggish world economy. The high cost of trade restrictions for the world economy—especially for developing countries—and the benefits of their removal bring a sense of urgency for action in these areas. Ministers welcome the work of the IMF, the World Bank, and the World Trade Organization on the potential benefits to developing countries of greater market access for their exports. Market protection in advanced economies has high costs for their own consumers and plays a significant role in perpetuating poverty in the developing world. In this context, ministers urge industrial countries to liberalize trade in areas of particular importance to developing countries, which would also make a significant contribution to meeting the Millennium Development Goals. Also, there is a pressing need to tighten the rules governing the use of trade remedy procedures, such as antidumping and countervailing measures, as well as the many standards and regulations that impede exports from developing countries. Ministers agree that developing countries themselves stand to benefit from liberalizing their own trade regimes if such liberalization is carried out in a well-sequenced manner within a comprehensive development program. Ministers look forward to fruitful and early results from the recently launched Doha round of trade negotiations and reiterate their call on the Bretton Woods institutions to help strengthen developing countries' capabilities in negotiation, implementation, and monitoring of trade agreements.

Maryam Taazimi—Expert, International Organizations and Institutions Bureau, Iranian Ministry of Economic Affairs and Finance—and Mohsen Nourbakhsh, Governor of Central Bank, Islamic Republic of Iran.

Crisis prevention and resolution

Ministers note the initiatives being pursued by the IMF to strengthen the focus and quality of its bilateral and multilateral surveillance. They note that the effectiveness of IMF surveillance in preventing crises depends on its ability to affect the policies of its members, in particular the largest economies.

Ministers are generally supportive of the range of measures under way to enhance the IMF's capacity to respond to crises, including clarifying the conditions for large access to its financial resources, in particular in dealing with capital account disturbances, and the policy on lending into arrears to private creditors. Ministers note the ongoing discussions on sovereign debt restructuring. They reiterate their preference for voluntary, country-specific, and market-friendly approaches to such restructuring. They remain open-minded about recent proposals for incorporating collective action clauses into bond contracts, while being skeptical of those proposals entailing amendments to the IMF's Articles of Agreement. They note that any proposal should be framed in a way that does not impair the volume and conditions of developing country access to financial markets.

Ministers express serious concern that Argentina is entering an unprecedented fifth year of recession and that unemployment is approaching 22 percent. They welcome the Argentine government's sound macroeconomic management in recent months. Ministers reiterate the importance of promptly helping Argentina regain market confidence and consolidate the recent signs of reduced market volatility and the bottoming out of economic activity. They urge an expeditious conclusion of the negotiations on a sustainable economic program to be supported by the IMF's financial resources, noting that such a program should permit a prompt recovery of economic activity.

Implementing the Monterrey Consensus

Ministers welcome the emphasis being placed on the accountability of donors and multilateral institutions, and the reciprocal responsibility of recipient countries, as agreed in Monterrey and Johannesburg and as exemplified in the New Partnership for Africa's Development (NEPAD). Ministers urge the integration of the Monterrey and Johannesburg agreements into the work programs of the Bretton Woods institutions and encourage collaboration with the United Nations to monitor progress toward the Millennium Development Goals. They also note the proposals presented in Johannesburg that call for consideration of the debt sustainability of heavily indebted middle-income countries.

Ministers are disappointed about the slow pace of implementation of commitments announced by industrial countries to increase their official development assistance (ODA), noting that agricultural subsidies of OECD countries are over six times greater than total ODA. They urge industrial countries to increase their level of ODA from the current average of 0.22 percent of GNP to 0.7 percent of GNP, in order to achieve the Millennium Development Goals, particularly that of halving poverty worldwide by 2015.

Support for low-income countries

Heavily Indebted Poor Countries (HIPC) Initiative. While welcoming the steady progress being made in the implementation of the HIPC Initiative, ministers reiterate their disappointment that only 6 out of 38 eligible countries have reached their completion point and that some creditors have not fully joined the process. Additional funding will be required to address HIPC-to-HIPC debt relief. Ministers are concerned that, owing to factors largely beyond their control—namely, overly ambitious export and growth assumptions, falling commodity prices, and the global slowdown—many HIPCs are likely to have debt ratios in excess of the HIPC Initiative threshold at the completion point. In this context, ministers stress the need to secure additional resources for topping-up debt relief and to streamline conditions and retain more realistic projections associated with debt relief. They welcome the extension of the sunset clause and urge prompt engagement with the authorities of countries that have not yet benefited from debt relief, including countries in protracted arrears, to bring them to the decision points. Ministers underscore the importance of monitoring long-term debt sustainability after the completion point. In addition, consideration should be given to recent proposals to extend debt relief beyond the HIPC Initiative—including linking debt relief to the Millennium Development Goals and refocusing it on debt service rather than debt stocks. Ministers are concerned about the large gap in the financing of the HIPC Trust Fund and call for early donor contributions to secure regional and subregional creditors' contribution to the Initiative.

Poverty reduction strategies. Ministers welcome the progress made in implementing poverty reduction strategies and stress that these strategies should become the vehicle for achieving the Millennium Development Goals. However, the poverty reduction strategy process faces several challenges—both in preparation and implementation. Ministers reiterate their call for all stakeholders to develop an appropriate framework to tackle the main challenges, including ensuring that all domestic stakeholders are involved in the development and monitoring of national poverty reduction strategies; aligning donor strategies and assistance fully with recipient countries' priorities and budgetary implementation cycles; discussing alternative macroeconomic scenarios and policy choices, as well as contingency plans to respond to exogenous shocks; addressing the poor quality of data and weak poverty diagnostics in many poverty reduction strategy papers (PRSPs); and improving monitoring and evaluation of the effectiveness of poverty reduction strategies. In order to strengthen ownership, alleviate capacity constraints, and improve the quality of PRSPs, ministers stress the need to better harmonize and increase technical assistance efforts and strengthen coordination among donors and international agencies. The process should give room for flexibility on the time frame for completion of PRSPs, taking into full consideration the unique conditions facing each country.

Jorge Madcur (left), Under-Secretary of Finance for Argentina, chats with Algeria's Minister of Finance, Mohamed Terbèche.

Postconflict countries. Ministers note the exceptional challenges faced by postconflict countries. They reiterate their call for utmost flexibility in bringing these countries to their decision points and continued constructive engagement with countries in conflict. Ministers appreciate the contributions made by a number of countries to subsidize the IMF's post-conflict emergency assistance, and encourage additional pledges by other members.

International Development Association. Ministers welcome the completion of negotiations for IDA resource replenishment (IDA-13) to provide concessional multilateral external financing to low-income countries, and the compromise reached on a grant component for certain purposes. They note that only 55 percent of the $23 billion replenishment will be sourced from fresh bilateral donor contributions.

Famine in Africa. Ministers note with concern the prevalence of famine in eastern and southern Africa as a result of the current drought. They welcome the international assistance provided so far and urge the international community to stand ready to provide further assistance if needed. Ministers also urge the World Bank and the IMF to rapidly provide grant or highly concessional resources to ensure that, where humanitarian support is not forthcoming, the affected populations of the countries do not face starvation as a result of a lack of financial resources.

Education for All. Ministers welcome the Education for All Fast-Track Initiative and call on the donor community to provide adequate and flexible support needed to underpin this initiative.

Bretton Woods institutions

Ministers note the decline in the size of the IMF relative to world output, trade, and capital movements and reiterate their view that the current discussions on the Twelfth General Review of Quotas should result in a substantial increase in the IMF's financial resources to strengthen its role in crisis prevention and resolution. Ministers believe that the review of the formulas used to calculate members' quotas should eliminate the existing bias that results in an underestimation of the size of developing country economies. Ministers believe that the quota distribution should reflect the relative economic positions of member countries and recent developments in the world economy. In addition, ministers stress that, because quotas have increased by some 36-fold while basic votes per member remain unaltered since 1944, the number of basic votes should be substantially increased. The participation of developing countries in the decision-making structures of the Bretton Woods institutions should be strengthened—particularly for sub-Saharan Africa. Ministers reiterate their call for a general allocation of SDRs, which would help alleviate pressures from the tightening of developing countries' access to private capital markets and assist the recovery of the world economy. They also urge those countries that have not done so to ratify promptly the equity SDR allocation under the Fourth Amendment of the IMF's Articles of Agreement.

Ministers welcome the issuance of the first report of the Independent Evaluation Office at the IMF on the subject of the prolonged use of IMF

Available on the web (www.imf.org)

News Briefs

02/96: IMF Completes Review Under Cameroon's PRGF Arrangement and Approves $21 Million Disbursement, September 18

02/97: IMF Completes Review Under Sierra Leone's PRGF Arrangement and Approves $25 Million Disbursement, September 19

02/98: IMF Completes Review Under Lesotho's PRGF Arrangement and Approves $4.6 Million Disbursement, September 20

02/99: IMF Completes Review Under Ethiopia's PRGF Arrangement and Approves $14 Million Disbursement, September 24

02/100: IMF Managing Director Horst Köhler Meets Colombian President Álvaro Uribe, September 25

02/101: IMF Completes First and Second Review of Armenia's PRGF Arrangement and Approves Request for Waiver of Performance Criteria, September 30

02/102: IMF Launches Web Site on Statistical Practices Relating to Foreign Direct Investment, October 2

Press Releases

02/41: IMF Approves Three-Year, $17.8 Million PRGF Arrangement for Uganda, September 13 (corrected, September 17)

02/42: IMF Approves Three-Year PRGF Credit for Guyana, September 13

02/43: IMF Executive Board Approves New Conditionality Guidelines, September 26

02/45: Communiqué of the International Monetary and Financial Committee of the Board of Governors of the IMF, September 28 (see page 298)

02/46: IMF and the African Capacity Building Foundation Sign Memorandum of Understanding, September 28

02/47: IMF Names David Burton to Head Asia and Pacific Department, September 30 (see page 308)

Public Information Notices

02/103: IMF Concludes 2002 Article IV Consultation with Australia, September 18

02/104: IMF Concludes 2002 Article IV Consultation with Rwanda, September 20

02/105: IMF Executive Board Discusses Further Considerations in the Twelfth General Review of Quotas, September 20

02/106: IMF Board Discusses Possible Features of a New Sovereign Debt Restructuring Mechanism, September 24

02/107: IMF Board Discusses the Good-Faith Criterion under the IMF Policy on Lending into Arrears to Private Creditors, September 24

02/108: IMF Concludes 2002 Article IV Consultation with the Islamic Republic of Iran, September 26

02/109: IMF Concludes 2002 Article IV Consultation with Mexico, September 26 resources, and will give its recommendations careful consideration.

Conditionality

Ministers welcome the recently revised guidelines on IMF conditionality and the ongoing work at the World Bank, which should help strengthen national ownership of reform programs and streamline conditionality. They note that further progress is needed in IMF–World Bank collaboration on country program design and conditionality in order to reduce the degree of overlap and avoid cross-conditionality, as well as to ensure a smooth application of the lead agency concept. Progress in collaboration and application of conditionality should be assessed on an ongoing basis, taking into account the feedback of the country authorities and other stakeholders.

Anti–money laundering and combating the financing of terrorism

Ministers welcome the progress made by the IMF and the World Bank in advancing the anti-money-laundering effort and the combating of terrorist financing worldwide to reduce the abuse of the international financial system. In performing their respective roles, the two institutions should ensure that the cooperative approach that characterizes their interactions with member countries is upheld. Ministers reiterate that the role of the Bretton Woods institutions should be consistent with their mandate and core areas of expertise and that they should not become involved in law enforcement matters. They emphasize the importance of addressing the resource implications of this endeavor on international financial institutions and member countries' technical assistance needs in a manner that avoids weakening the institutions' effectiveness in other areas. While noting the limited progress achieved in the consultations with the Financial Action Task Force (FATF), ministers regret that the FATF has not yet totally abolished its noncooperative approach, as it continues to publish its Noncooperative Countries and Territories list, in which many countries believe that they have been unfairly included.

The next meeting of the Group of 24 Ministers is scheduled for April 11, 2003, in Washington, D.C. ■

Speeches

"The Nordic Banking Crisis from an International Perspective," Stefan Ingves, Director, IMF Monetary and Exchange Affairs Department, Seminar on Financial Crises, Oslo, Norway, September 11

"Investing in Better Globalization," Horst Köhler, IMF Managing Director, Council on Foreign Relations, Washington, D.C., September 19

"Supporting Globalization," Anne O. Krueger, IMF First Deputy Managing Director, 2002 Eisenhower National Security Conference on National Security for the Twenty-First Century

Opening Remarks for a Press Conference on Trade, Kenneth Rogoff, IMF Economic Counsellor and Director, Research Department, Washington, D.C., September 27

Address by Horst Köhler, IMF Managing Director, to the Board of Governors of the IMF, Washington, D.C., September 29 (see page 292)

Closing Remarks by Horst Köhler, Chair of the Executive Board and IMF Managing Director, to the Board of Governors of the IMF, September 29

Transcripts

Press Conference on the IMF's *Annual Report*, Anne O. Krueger, IMF First Deputy Managing Director, and Michael G. Kuhn, IMF Deputy Treasurer, September 17

IMF Economic Forum, "Governing the IMF," September 17

Press Conference Call on the *World Economic Outlook,* Analytic Chapters by Kenneth Rogoff, IMF Economic Counsellor, David J. Robinson, Deputy Director, and Tamim Bayoumi, Chief, World Economic Studies Division, IMF Research Department, September 18

IMF Briefing on Latin America, September 23

Press Briefing on the *World Economic Outlook*, by Kenneth Rogoff, Economic Counsellor and IMF Research Department Director, September 25 (see page 318)

Press Conference by IMF Managing Director Horst Köhler on the 2002 IMF–World Bank Annual Meetings, September 26

Press Conference of the Intergovernmental Group of 24 on International Monetary Affairs and Development, September 27

Press Conference Following IMFC Meeting by Gordon Brown, U.K. Chancellor of the Exchequer and Chair of the IMFC, and IMF Managing Director Horst Köhler, September 28 (see page 301)

African Finance Ministers' Press Briefing, September 28 (see page 307)

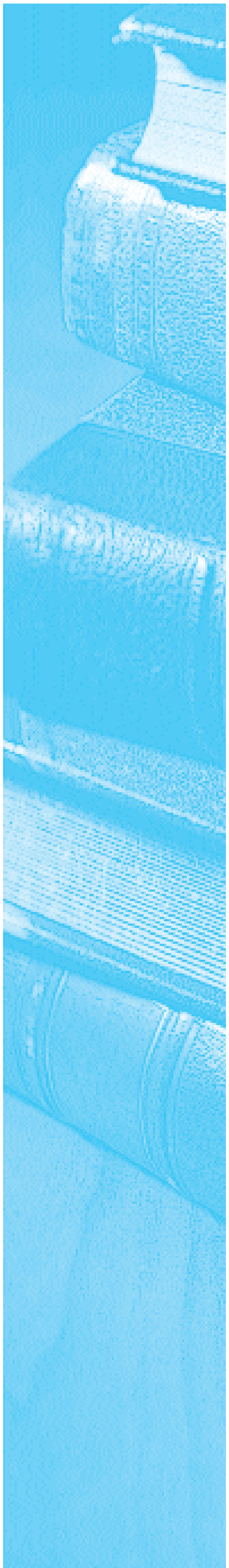
Communiqués

Intergovernmental Group of 24 on International Monetary Affairs and Development, September 27 (see page 311)

Ministers and Governors of the Group of 10, September 27 (see page 310)

International Monetary and Financial Committee of the Board of Governors of the IMF, September 28 (see page 298)

Development Committee, September 28 (see page 304)



Recent publications

IMF Working Papers ($10.00)

02/134: *Regional Labor Market Disparities in Belgium*, Marcello Estevao

02/135: *Changes in the Structure of Earnings During the Polish Transition*, Michael Keane and Eswar S. Prasad

02/136: *Indonesia*: *Managing Decentralization*, S.E. Ahmad and Ali M. Mansoor

02/137: *Central Bank Financial Strength, Transparency, and Policy Credibility*, Peter Stella

02/138: *Liberalization of Trade in Financial Services and Financial Sector Stability* (Analytical Approach), Alexi P. Kireyev

02/139: *Liberalization of Trade in Financial Services and Financial Sector Stability* (Empirical Approach), Alexi P. Kireyev

02/140: *Issues in Domestic Petroleum Pricing in Oil-Producing Countries*, Sanjeev Gupta, Benedict J. Clements, Kevin T. Fletcher, and Gabriela Inchauste

02/141: Liability Dollarization and the Bank Balance Sheet Channel, Woon Gyu Choi and David Cook

02/142: *Fiscal Consequences of Armed Conflict and Terrorism in Low- and Middle-Income Countries*, Sangeev Gupta, Benedict J. Clements, Rena Bhattacharya, and Shamit Chakravarti

02/143: *Wage Centralization, Union Bargaining, and Macroeconomic Performance*, James E. McHugh

02/144: *Spreading Currency Crises: The Role of Economic Interdependence*, Wolfram Berger and Helmut Wagner

02/145: *International Financial Integration and Economic Growth*, Hali Edison, Ross Levine, Luca A. Ricci, and Torsten M. Sløk

02/146: *Determinants of Commercial Bank Performance in Transition: An Application of Data Envelopment Analysis*, Vlad Manole

02/147: *The Rise in Comovement Across National Stock Markets: Market Integration or Global Bubble?* Robin J. Brooks and Marco Del Negro

02/148: *Trade and Integration in the Caribbean,* Philippe Egoume Bossogo and Chandima Mendis

02/149: *Sovereign Defaults: The Role of Volatility,* Luis A. Catao and Bennett W. Sutton

02/150: *Are Mexican Business Cycles Asymmetrical?* Andre O. Santos

02/151: *Wage Moderation in France*, Marcello Estevao and Nigar Nargis

02/152: *Corporate Performance and Governance in Malaysia*, Yougesh Khatri, Luc Leruth, and Jenifer Piesse

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02/194: Romania: First and Second Reviews Under the Stand-By Arrangement, Request for Waivers, and Modification of Performance Criterion

02/195: Thailand: Selected Issues and Statistical Appendix

02/196: Malawi: Use of IMF Resources—Request for Emergency Assistance

02/197: Jamaica: 2002 Article IV Consultation and a New Staff-Monitored Program

02/198: Slovak Republic: Financial System Stability Assessment, including Reports on the Observance of Standards and Codes

02/199: Sri Lanka: 2002 Article IV Consultation and Final Review Under the Stand-By Arrangement

02/200: Mexico: Report on the Observance of Standards and Codes—Fiscal Transparency Module

02/201: Australia: 2002 Article IV Consultation

02/202: Namibia: Report on the Observance of Standards and Codes—Data Module

02/203: Central African Economic and Monetary Community—Paper on Recent Developments and Regional Policy Issues

02/204: Rwanda: 2002 Article IV Consultation and Requests for a New PRGF and for Additional Interim Assistance Under the Enhanced HIPC Initiative

02/205: Nepal: 2002 Article IV Consultation

02/206: Nepal: Selected Issues and Statistical Appendix

02/207: Lao People's Democratic Republic: Selected Issues and Statistical Appendix

02/208: Sri Lanka: Selected Issues and Statistical Appendix

02/209: Slovak Republic: 2002 Article IV Consultation

02/210: Slovak Republic: Selected Issues and Statistical Appendix

02/211: Islamic Republic of Iran: 2002 Article IV Consultation

Other

Global Financial Stability Report ($42.00; academic rate, $35.00)

Considering the IMF's Perspective on a "Sound Fiscal Policy," Peter S. Heller (Policy Discussion Paper No. 02/08)

The Role of Monthly Economic Statistical Bulletins, Claudia H. Dziobek and Mei Jin (Policy Discussion Paper No. 02/9)

Corporate Sector Restructuring: *The Role of Government in Times of Crisis*, Mark R. Stone (Economic Issues No. 31)

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Independent Evaluation Office report

Prolonged use of IMF resources can undercut domestic policies and IMF credibility

The IMF's Independent Evaluation Office (IEO), in its first report, finds that prolonged use of IMF resources is frequently linked with deficient program effectiveness and that it may hinder the development of domestic policies in borrowing countries and weaken the IMF's credibility. The report recommends that the IMF adopt an official definition of prolonged use, be more selective in extending financial support, and develop explicit exit strategies from IMF support. The report was warmly received by the IMF's Executive Board, which endorsed the thrust of its analyses. In response, IMF management has decided to set up a task force to prioritize the recommendations and lay out a strategy to implement them. Following are edited excerpts of IEO Press Release No. 02/01 on the report. The full text of the report, including the summing up of the IMF's Executive Board discussion, is available on the IEO's website (www.imf.org/np/ieo/2002/pu/index.htm).

Prolonged use of IMF resources has expanded considerably over the past two decades—one-third of current users can be categorized as prolonged users. The report points out that this expansion is in part a reflection of conscious decisions by the international community to expand the IMF's mandate to assist low-income countries to deal with their deep-rooted balance of payments problems, but extended use is also significant among users of the IMF's general resources.

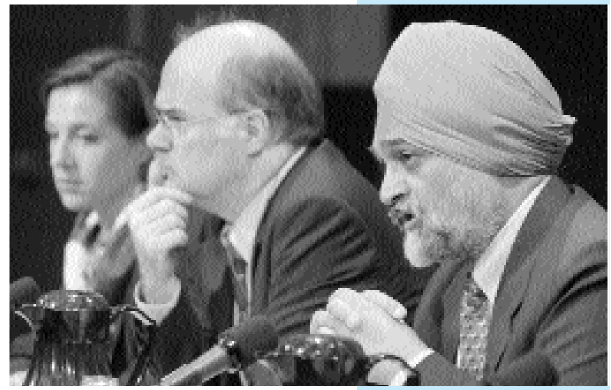
Why the increase in prolonged use?

The expansion of prolonged use is accounted for by three sets of factors, some of which reflect deficiencies in the way IMF policies are formulated or implemented.

• ***Country-specific factors.*** Prolonged users are typically countries facing large and deeply rooted economic difficulties when they first come to the IMF. These difficulties often take longer to solve than the short- to medium-term horizon of IMF arrangements.

• ***Institutional factors, both systemic and internal to the IMF.*** The international community's decision to expand the mandate of the IMF to include assisting low-income developing countries facing structural, deep-seated balance of payments imbalances is one factor explaining expansion in prolonged use. The report argues that, while this decision might be justifiable under the circumstances, its implications for program design and the appropriate time frame of IMF involvement were not adequately recognized until relatively recently. The role that IMF lending arrangements play in providing a "seal of approval"—which is necessary for the flow of many other sources of financing, including debt restructuring—is another factor contributing to prolonged use. So is the increasingly blurred boundary between surveillance and lending activities, which leads to a crowding out of surveillance.

• ***Program-related factors.*** Deficiencies in program design and implementation can lead to the persistence of balance of payments problems, which encourage prolonged use. Some specific design flaws identified in the study are excessive optimism in macroeconomic projections, insufficiently prioritized and sometimes poorly designed conditionality, and underestimation of the importance of ownership and of capacity constraints.



At the press briefing on the IEO's first report are (from right) Montek Singh Ahluwalia (Director of the IEO), David Goldsbrough, and Isabelle Mateos y Lago.

When is prolonged use a problem?

Even when prolonged use can be justified by the circumstances, it can have significant adverse implications, both for prolonged users and for the IMF, that have not been adequately recognized. For countries, prolonged use gives the IMF an excessive presence in policy formulation, which can hinder the development of robust domestically driven policy formulation processes. Furthermore, in some cases, the expectations of continued IMF financial support may have reduced incentives to act decisively to address long-term adjustment problems.

There are also negative effects on the IMF. The direct financial impact has been limited to date, but the phenomenon clearly reduces the revolving character of IMF resources. There is also some evidence that prolonged use weakens the credibility of the seal of approval provided by IMF-supported programs.

Recommendations

The report concludes with a series of specific recommendations, including:

• The Executive Board should adopt an explicit definition of prolonged use to ensure an automatic triggering of due diligence procedures designed to avoid prolonged use. The IMF should also be more willing to refrain from providing support where programs have a low probability of success. It should also outline more explicit "exit" strategies for prolonged user cases.

• The IMF should seek to reduce the reliance on its lending arrangements as a "gatekeeper" by seeking to offer the international community a broader mix of tools, including strengthened surveillance, to deliver seals of approval to donors and creditors.

• To strengthen program design and implementation through enhanced ownership, the IMF should move toward a situation where the normal procedure is for the authorities to have the initial responsibility for proposing a reform program as the starting point for negotiations.

• Programs should be more selective in content with greater emphasis on fostering key institutional changes and on assessing and strengthening implementation capacity.

• Internal IMF governance should be strengthened through more systematic ex post assessments of programs and more opportunities to step back and reconsider the overall strategy, including through strengthened surveillance, in prolonged use cases.

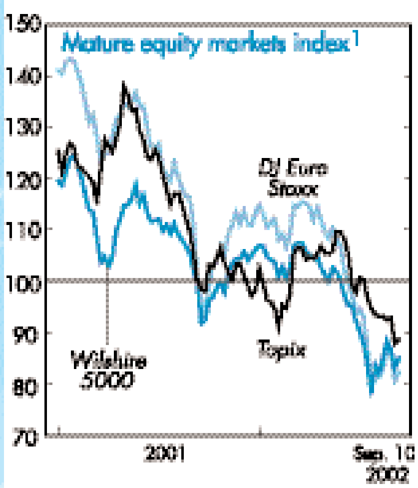
In an Executive Board meeting on September 20, Directors generally expressed support for the analyses and recommendations of the report, noting that some recent initiatives, such as the revision to conditionality guidelines, were already moving in the same direction. They welcomed the IMF's management decision to establish a task force to study the policy and operational implications of the IEO's recommendations. The task force will report to the Board early next year with specific proposals for implementation. ■

World Economic Outlook

Slow global economic recovery ahead

Global economic growth should continue its recovery in 2003, but less strongly than projected earlier this year, Kenneth Rogoff, the IMF's Economic Counsellor and Director of its Research Department, announced at a September 25 press conference releasing the September 2002 World Economic Outlook. *"Overall, we are cautiously optimistic about a global recovery, with the emphasis on caution," said Rogoff.*

Equity markets have fallen sharply



[1] September 10–14, 2001 = 100; national currency.

Data: IMF, *World Economic Outlook*, September 2002

The IMF projects 2002 global growth of 2.8 percent—identical to its April projections—with an unexpectedly strong first quarter in some key countries offset by a more recent deterioration in performance. For 2003, the projection has been lowered by 3/10 of 1 percent to 3.7 percent. The decline in the forecast reflects a further sell-off in global equity markets (see chart, this page), a decline in investor risk appetite, softer-than-expected indicators of economic activity in the past few months, further turmoil in parts of Latin America, and heightened geopolitical uncertainty.

Putting the numbers in perspective, Rogoff noted that 3.7 percent was far above the 2.2 percent global growth reached in 2001, thanks to the still substantial monetary stimulus in the pipeline and a continuing inventory rebound. Moreover, the evidence still supports the view that the productivity boom resulting from the tech revolution was real despite the slow recovery.

What is in store for world trade? World trade volume was flat in 2001, and its growth in 2002 is projected at only 2.1 percent, representing a setback in the pace of global economic integration. But prospects are brighter for 2003, with projected trade growth returning to a more normal rate of 6.1 percent.

As for inflation, the *World Economic Outlook* projects a modern-era low of 1.4 percent in 2002 for the industrial countries and 1.7 percent in 2003. Taking into account various technical factors, Rogoff said "this is virtually the moral equivalent of zero inflation." But paraphrasing the U.S. novelist Mark Twain, he observed that nevertheless "rumors of the death of inflation are greatly exaggerated, and the world's central banks need to remain vigilant to the possibility of a steady, slow increase in inflation over the coming years." In the developing countries, inflation is projected at 5.6 percent in 2002 and 6 percent in 2003, again relatively low by the standards of recent decades.

Turning to prospects for the various regions, U.S. growth is projected at 2.2 percent in 2002 and 2.6 percent in 2003, the latter being at the low end of market expectations. These projections, Rogoff said, reflect negative consumer sentiment, the sharp drop in equity prices, uncertainty over war in the Middle East, and still-weak evidence of an eventual recovery in business fixed investment.

For the euro area, the forecast is for growth of 0.9 percent in 2002 and 2.3 percent in 2003. The main immediate concern in Europe is that domestic demand is too weak to fuel recovery. Europe has enormous potential for growth: it is only since 1995 that the United States has enjoyed higher productivity growth than Europe. But the *World Economic Outlook* emphasizes that until Europe reinvigorates its inflexible labor markets and addresses the consequences of its rapidly aging population, its growth rate will likely continue to lag that of the United States.

Japan is now the slowest-growing major economy, with growth projected at –0.5 percent for 2002 and +1.1 percent for 2003. Japan appears to be emerging from its third recession in a decade, but there is no guarantee against another similarly bad decade without a determined effort to implement profound bank and corporate restructuring and to take decisive steps to end a period of deflation unprecedented among industrial countries since World War II.

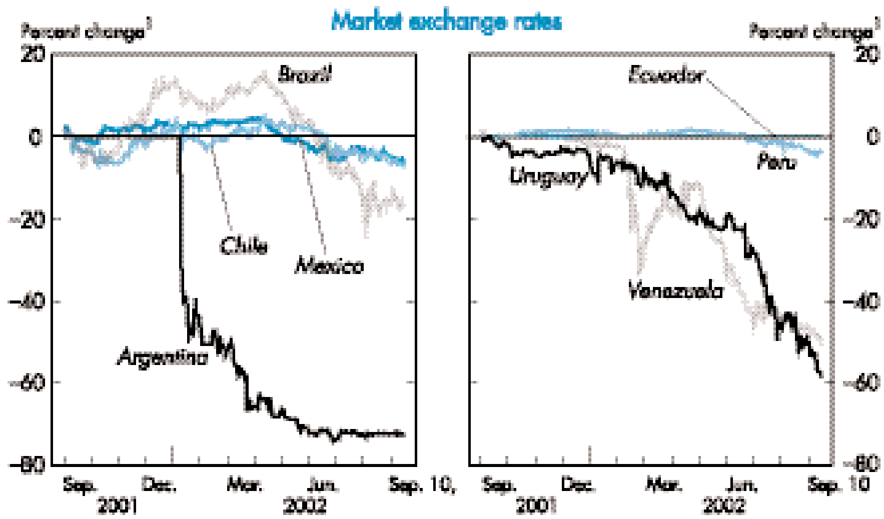
Growth in developing countries overall is expected to recover to 4.2 percent in 2002 and to 5.2 percent next year. These projections are, of course, conditional on continuing recovery in the industrial countries. As for Latin America, financial markets have been rocked by political developments and renewed concerns about longstanding macroeconomic vulnerabilities (see chart, this page). The persisting economic difficulties in most countries in the region, and their continuing vulnerability to external financial crisis, underscores that there is no elixir to easily restore sustained high growth. At the same time, some basic lessons cannot be ignored. Developing sound institutions helps economic performance. Weak institutions dampen it. And openness to trade is important for long-term growth.

Financial integration is also important, not least to support trade, but there are nuances to this piece of advice, Rogoff warned. Foreign direct investment and portfolio flows are clearly beneficial for growth. But debt-creating capital inflows, particularly those of a short-term nature, can increase an economy's vulnerability to financial crisis. Experience over the past decade with surges and sudden stops in short-term capital flows suggests that a rethink of what constitutes prudent debt levels may be in order.

Protesters at the Annual Meetings also captured Rogoff's attention. He made a point of telling them that the IMF recognizes their idealism and their passion for a fairer and more just world, noting that the organization shares some of the protesters' ideas about improving the process of globalization. If the protestors were willing to listen to the IMF, he said, they might even find that they shared some of the IMF's ideas, such as the need to find a dramatically better way to help countries resolve unsustainable debt burdens. At the same time, said Rogoff, "one must also acknowledge that anarchy does not breed prosperity, nor does a retreat into statism and autarchy. Surely, the experience of the last century should have shattered that illusion. Excessive economic isolationism and state intervention imply poverty for the masses and privilege for the few. The process of globalization needs to be strengthened, its benefits broadened, but it should not be reversed."

In response to a reporter's question on the reasons for the sharp decline of the Brazilian currency, the real, against the dollar, Rogoff observed that markets believed there were heightened risks. Brazil's long-term policy priority is to reduce its debt burden, and the authorities need to focus on fiscal adjustment and structural reforms—including opening up more to trade—to broaden sources of growth. Over the medium term, it is essential that the debt burden be brought down gradually. One way to do so is through

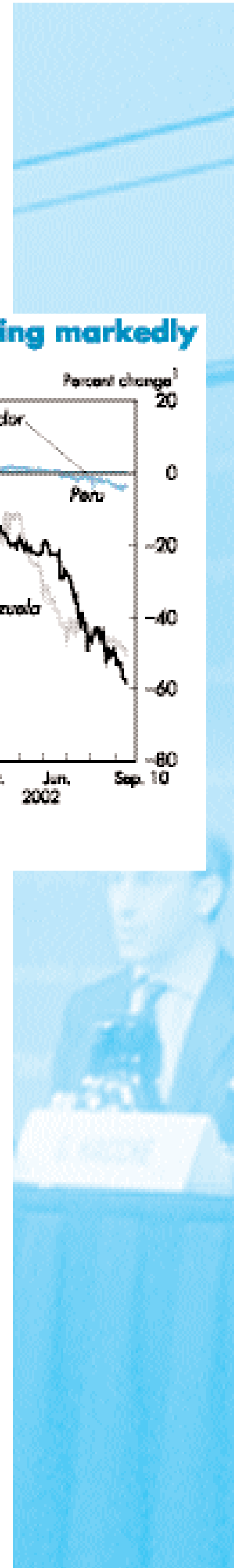
Latin American exchange rates weakening markedly



[1] Since September 10, 2001.

Data: IMF, *World Economic Outlook*, September 2002

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



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Below, the *World Economic Outlook* team (from left, Tamim Bayoumi, David Robinson, and Kenneth Rogoff of the IMF's Research Department) briefs the press on the report's growth projections. At far right is IMF External Relations Deputy Director Graham Hacche.

a strong fiscal program such as the one Brazil has adopted, but this requires a great deal of social and political consensus, and is certainly not easy because the high debt burden itself generates high interest rates. A second important element is achieving sustained growth to help bring down the debt-to-GDP ratios.

Should the IMF be in the business of forecasting at all, when its priority was to help countries resolve problems like unsustainable debt burdens? asked one reporter. Rogoff responded that the IMF's forecasting is an essential part of its surveillance and policy advice. Member countries rely on the IMF's forecasts when they formulate their economic policies. Unlike most other forecasts, the IMF brings to the task a global and objective perspective, which is critical for its policy advice with regard to the global economy. The forecasts would have to be prepared even if the IMF didn't make them available to the public, but in the interest of transparency and since the IMF is already doing the work, it wants to share them with the world.

Also on the minds of the journalists was the possible impact of a war against Iraq. Rogoff explained that the IMF's projections were subject to a number of downside risks. The possibility of conflagration in the Middle East is certainly one of those risks, he said, as is terrorism. However, it is difficult for forecasters to evaluate the economic impact of a potential war. One likely effect is a spike in oil prices, and the report shows that a $15 rise in oil prices, if sustained for a year, would lead to a 1 percent fall in global output, without taking into account the effects on consumer and business confidence. The IMF sees a great deal of uncertainty more broadly in the global outlook at this time, including on when business fixed investment will pick up. Equity prices have dropped and heightened risk aversion abounds. Uncertainty over conflagration interacts with these risks, he said, and potentially magnifies them. Clearly, world peace would be a very good thing for the world economy. ■

Marina Primorac
IMF External Relations Department

Selected IMF rates

Week beginning	SDR interest rate	Rate of remuneration	Rate of charge
September 23	2.22	2.22	2.84
September 30	2.19	2.19	2.80

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?2002).

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Data: IMF Treasurer's Department