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Annual Meetings issue

Prague Annual Meetings focus on issues of globalization and poverty reduction; Köhler presents his vision for the IMF

The pressing issues of globalization—the need to make it work for the benefit of all, while minimizing its costs—were the main focus of the fifty-fifth Annual Meetings of the IMF and the World Bank, held at the Prague Congress Center on September 26–28. IMF Managing Director Horst Köhler set the tone for the meetings in his opening address, in which he outlined his vision for the future of the IMF.

The opening day of the meetings, on September 26, was marred by at times violent demonstrations by radical opponents of globalization. These demonstrations in the area immediately surrounding the Congress Center impeded access to and exit from the meetings for some hours but did not disrupt the proceedings inside the center. As the Managing Director stressed at the concluding press conference: "These violent forces did not distract us from our work."

Prague, Czech Republic, provided the venue for the 2000 Annual Meetings of the IMF and the World Bank.

International Monetary Fund
World Bank Group
Boards of Governors
Annual Meetings
Prague 2000
Czech Republic

Köhler's vision

Addressing his first Annual Meetings, Köhler set out four crucial elements of his vision (see Köhler's remarks, page 303). The IMF, he said, should

- strive to promote sustained noninflationary growth that benefits all people of the world,
- be the center of competence for the stability of the international financial system,
- work together with other institutions established to safeguard global public goods, and
- be an open institution, learning from experience and dialogue, and adapting continuously to changing circumstances.

In this vision, he said, the IMF must be "an active part of the workforce to make globalization work for the benefit of all," acting "as a partner to its members and as a provider of help for self-help."

The IMF's focus, he stressed, must be to promote macroeconomic stability as an essential condition for sustained growth. To pursue this, the IMF has to concentrate on fostering sound monetary, fiscal, and exchange rate policies. His ambition, he said, is "not to have more and more lending programs but to place crisis prevention and, thus, surveillance at the center of the IMF's activities." He added that, in its advice, "the IMF should show respect for the cultural and historical traditions of its member countries, and should not lecture." While the IMF should maintain conditionality in its lending, he said, it must also work to enhance real ownership of programs.

On the pressing issue of poverty reduction, Köhler said that the Poverty Reduction and Growth Facility (PRGF) is an innovative instrument in the IMF's efforts to make globalization work for the benefit of all, not least because it aims at tackling the root causes of poverty. He emphasized that disengagement from the poor countries would be inconsistent with the IMF's mandate and would also deepen the divisions of the world. Also important, he said, was the work of strengthening the underpinnings for a productive private sector in developing countries. "Every day that passes unused for this work is a day lost in the fight against poverty," he observed. *(Please turn to the following page)*

(Continued from front page)

Other addresses

The meetings were formally opened by Czech President Vaclav Havel, who called on the "small group of people or countries that fare altogether very well" to work together, both financially and intellectually, with the "large group of people or countries that fare very badly." In addition to the restructuring of the developing countries' economies, he said, there is a need for "another restructuring—a restructuring of the entire system of values that forms the basis of our civilization today" (see page 309).

IMF Managing Director Horst Köhler (left) speaks with Czech President Vaclav Havel in the gardens of Prague Castle.

The chair of the meetings, Trevor Manuel, the South African Finance Minister, stressed in his opening address that "growing inequality poses the greatest risk to the future of the world economy. If the majority of the world's population is increasingly marginalized and economically disenfranchised, then globalization will fail." Noting that future discussions on IMF quotas should be viewed from the perspective of global development, not merely "from the perspective that economic might is right," he emphasized that it is important that the voice of "developing countries should be heard more strongly in the Bank and the IMF."

Stressing that "fair access to the markets of the developed countries is critical for sustainable growth and development," Manuel said that "it is imperative that we urgently refocus our efforts on a comprehensive and equitable conclusion of a new round of multilateral trade negotiations." (For extracts from Manuel's remarks, see page 306.)

These themes were echoed in subsequent discussion by speakers representing both developing and industrial countries. (A report on the general discussion will appear in the next issue of the *IMF Survey*.)

IMFC meeting

The plenary sessions of the meetings were preceded by meetings of the International Monetary and Financial Committee (IMFC) on September 24, with Gordon Brown, the U.K. Chancellor of the Exchequer, as chair, and the Joint Bank-IMF Committee on the Transfer of Real Resources to Developing Countries (Development Committee) on September 25, with Yashwant Sinha, the Indian Finance Minister, as its chair. A joint meeting of the two committees was also held on September 24.

In its communiqué, the IMFC indicated its strong support for the objective of making globalization work for the benefit of all and endorsed the Managing Director's vision of the future role of the IMF. With regard to the current economic pressures generated by increased world oil market prices, it expressed concern that these pressures, if sustained, could hamper global growth, add to inflationary pressures, and adversely affect prospects for many countries, in particular the poorest ones. At a press conference with Köhler following the meeting, Brown said that all committee members, oil producers as well as consumers, agreed on the need for stability in oil markets around reasonable long-term prices. (For the edited text of the press conference, see page 312. For the text of the IMFC and the joint IMFC–Development Committee communiqués, see pages 314 and 318, respectively.)

On world economic issues and the role of the IMF, the IMFC urged the world community to "place renewed emphasis on promoting broadly shared prosperity, sustained growth, and poverty reduction." It noted that the IMF, together with the World Bank, is uniquely placed to serve its members in this effort. It called on the IMF, together with the world community, to strengthen efforts to reduce vulnerability and avoid crises, broaden and strengthen its surveillance of the domestic economic policies of all members and of the international financial system, continue development of internationally agreed codes and standards, and promote constructive engagement of the private sector by the official sector.

In its review of IMF facilities, the IMFC welcomed recent agreements in the IMF Executive Board on

- modification of the Contingent Credit Lines to make them a more effective instrument for preventing crises and resisting contagion;
- changes in the terms of Stand-By and Extended Fund Facility (EFF) Arrangements to encourage countries to avoid relying on IMF resources for unduly long periods or in unduly large amounts;
- reaffirmation that the EFF should be confined to cases where longer-term financing is clearly required; and
- agreement that enhanced postprogram monitoring could be useful, especially when outstanding credit reaches a certain threshold level.

Poverty reduction

Strategies for effective poverty reduction were addressed by the IMFC and at the joint meeting of the IMFC and the Development Committee. The IMFC emphasized that a lasting breakthrough in combating poverty would be achieved only if the poorest countries were able to build the fundamentals for sustained growth. It said the PRGF provided an essential framework for supporting countries' growth strategies and for enabling debt relief under the enhanced Heavily Indebted Poor Countries (HIPC) Initiative to be translated into poverty reduction.

The communiqué issued after the joint meeting of the two committees noted that 10 countries had already reached their decision points under the enhanced HIPC Initiative and welcomed the intent to bring 20 countries to their decision points by the end of 2000. This is expected to result in combined debt-service relief of more than $30 billion. Together with traditional debt-relief mechanisms, a total of $50 billion will be provided to the poorest countries, the communiqué said.

Concluding press conference

The progress made at the Prague meetings was summed up by Köhler at the concluding press conference held jointly with World Bank President James Wolfensohn and Annual Meetings Chair Trevor Manuel. After thanking the Czech authorities and deploring the violence of a small group of protesters, Köhler emphasized that the IMF and the World Bank would leave Prague strengthened by the support of the membership to continue the process of reform and to remain strongly engaged in the poor countries.

The IMF, he said, had received strong guidance from its members that it must focus on promoting strong economic growth that benefits all people of the world, in particular through open markets for the products of developing countries. He observed that the IMF should, in addition, be the center of competence in providing for the stability of the international financial system.

In his remarks, Köhler paid tribute to "a new spirit of cooperation between the World Bank and the IMF." This, he said, would be a strong asset in the continuing work to make globalization work for the benefit of all. (For edited excerpts from the press conference, see page 323.)

Other events

In addition to the official gatherings at the meetings, the annual Per Jacobsson lecture was delivered on September 24 by Josef Tošovský, the Governor of the Czech Central Bank, on lessons from the transition 10 years later.

On September 23, President Havel hosted a reception at Prague Castle, attended by Köhler and Wolfensohn and representatives of civil society, for a discussion of the different approaches to issues of poverty and debt relief.

Protester being arrested outside the Prague Congress Center.

The joint IMF–World Bank seminar program, "Making the Global Economy Work for Everyone," was held on September 22–26. The program is designed to serve as a forum for discussion on issues of global finance and investment, trade, information technology, and human development. (Articles describing the Per Jacobsson lecture and the program of seminars will appear in the next issue of the *IMF Survey*, dated October 23.)

(The full texts of all communiqués, speeches, press conferences, and other materials relating to the Annual Meetings are to be found on the IMF's website: www.imf.org.) ■

Ian S. McDonald
Editor-in-Chief, *IMF Survey*

Managing Director's opening address

Köhler says surveillance and crisis prevention should be at center of IMF activities

Following are edited excerpts of the opening address by IMF Managing Director Horst Köhler to the Board of Governors of the IMF on September 26 in Prague.

I see two major challenges to which the membership of the IMF must respond. First, international private capital flows have become a major source of growth, productivity, and job creation. But they can also be a source of volatility and crisis. The crises of 1997–98 have heightened the awareness that the stability of the international financial system is an important international public good. Second, 10 years after the end of the Cold War, there are more opportunities than ever to promote a better world. Ideological divides have faded, and new technologies and the expansion of the marketplace have opened new horizons for shared prosperity. But at the beginning of the new millennium, we are also aware of huge unsolved problems. The most pressing of these is poverty, which is becoming a major threat for political stability in the world.

The philosopher Karl Popper said, "All life is problem solving." This is also my approach and how I see my role as Managing Director of the IMF. In my vision, the IMF should

- strive to promote sustained noninflationary economic growth that benefits all people of the world;
- be the center of competence for the stability of the international financial system;
- work in a complementary fashion with other institutions established to safeguard global public goods; and
- be an open institution, learning from experience and dialogue, and adapting continuously to changing circumstances.

In this vision, I see the IMF as an active part of the workforce to make globalization work for the benefit of all. This vision builds on an enhanced partnership with the World Bank, based on a clear sense of the complementarities of our two institutions.

Globalization and cooperation

If the IMF did not exist already, this would be the time to invent it. More than ever, globalization requires cooperation and institutions that organize this cooperation. Its 182 members make the IMF a truly global institution, and the cooperative nature of this institution is an invaluable asset. We should all seek to preserve and strengthen this asset, which requires trust in cooperation. That means trust that the interests of all members are taken into account and, equally, trust that each member lives up to its own responsibilities.

Members need to listen to each other, and the IMF should see itself as a partner to its members and as a provider of help for self-help. And it means that the IMF's mandate is directed to promoting the international common good.

Economic growth is not everything, but without growth we get nowhere. Growth requires innovation, adaptation, and reform as permanent features of societies. To a remarkable extent—and notwithstanding severe strains and hardships—developing countries and transition economies have embraced this challenge. But this process is not a one-way street. Many industrial countries have not yet developed enough of a sense of urgency to deliver *their* part of structural change to make globalization work for all. This includes, crucially, that industrial countries recognize that it is both in their own interest and in the interest of the global economy to take a strong lead in opening their markets. It also includes the necessary awareness of the importance of balanced exchange rate relations between the major currencies. I welcome the action taken by the ECB [European Central Bank], together with other major central banks, to bring the euro better in line with the fundamentals of the European economy. This action also demonstrates the institutional maturity of the ECB.

If the willingness of the developing and emerging market countries to tackle energetically their home-made problems is combined with more determination in the industrial countries to reform and open their markets, we will create a win-win situation for all and thus make the United Nations' objective of halving the share of people living in poverty by 2015 achievable.

Refocusing the IMF

The IMF's focus must clearly be to promote macroeconomic stability as an essential condition for sustained growth. To pursue this objective, the IMF has to concentrate on fostering sound monetary, fiscal, and exchange rate policies, along with their institutional underpinnings and closely related structural reforms. And more important than ever in the modern economy is the IMF's mandate to oversee the international monetary system and ensure its effective operation. This virtually obliges the IMF to give particular attention to systemic issues of financial markets, both domestic and international.

To fulfill this task effectively, the IMF must gain a better understanding and judgment of the dynamics of international capital markets and the operations of private financial intermediaries.

My ambition is not to have more and more lending programs but to place crisis prevention and, thus, surveillance at the center of the IMF's activities. For this, we must develop a culture in the IMF where member countries are eager to seek the IMF's advice early and voluntarily. In our bilateral surveillance, we need to place particular emphasis on identifying sources of external and financial sector vulnerability and on helping our member countries cope with volatility in international capital flows. The IMF should further develop its multilateral surveillance with a focus on the early identification of systemic issues and risks, particularly in global financial markets. We should also pay increased attention in our policy advice to issues of regional integration, including through regional surveillance. In its advice, the IMF should show respect for the cultural and historical traditions of its member countries and should not lecture. But, at the same time, it must be candid in conveying its professional analysis and judgment to member countries.

Financial architecture

The International Monetary and Financial Committee has launched a wide range of measures to strengthen the global financial architecture, particularly through improved data transparency, standards and codes, vulnerability assessments, and the Financial Sector Assessment Program, a joint initiative of the IMF and the World Bank. Taking stock today, we can state that the international financial system is stronger now than before the outbreak of the Asian crisis. But we should beware of complacency. Financial sectors in many countries are not yet as robust as they need to be, and there is a risk that the high growth rates could weaken the momentum of reform. All members have to ask themselves how they can accelerate the implementation of these reforms. I think it is in the interest of all that the entire membership be fully involved and take full ownership of the initiatives in this area.

An IMF focused on promoting the stability of the international financial system has to be pointed and rigorous in its assessment of the appropriateness of exchange rate arrangements in member countries. We also need to be able to reach clear conclusions about the right balance and sequencing between capital account liberalization and financial sector development. And I think the IMF has to be more proactive in the discussion of the appropriate regulation and supervision of international financial markets.

My discussions with private sector participants have confirmed that the crisis-prevention work of the IMF and the efforts to strengthen the global financial architecture will bear fruit. However, we have to be aware that crises can occur again in an open and dynamic global economy. Our work should make crises less frequent and less severe. And we should promote financial sectors that are able to absorb shocks.

For crisis resolution, the IMF needs to have efficient lending instruments and adequate resources to mount a credible response to crises. But its resources are limited, and, thus, the IMF cannot be seen as a lender of last resort. Therefore, it was important to conduct a comprehensive review of IMF facilities. The outcome clearly strengthens the catalytic role of the IMF and the revolving character of its resources. It demonstrates that the cooperative nature of the IMF is solidly rooted in its membership. With the set of differentiated, but streamlined and sharpened, facilities, the IMF is now better equipped to deal with crises and prevent contagion.

The rapid return of private capital to a number of crisis countries underscores that it makes sense to engage constructively with the private sector in both the prevention and the resolution of crises. Private investors know that they must assume full responsibility for the risks they take. There is broad agreement that the operational framework for private sector involvement should rely as much as possible on market-oriented solutions and on voluntary approaches. It is also undisputed that there may be exceptionally difficult cases that call for more concerted approaches to involve the private sector, including the possibility of standstills as a truly last resort. Judgment will always be a crucial element. We need to explore further the middle ground between these approaches to make the framework operational.

Poverty and debt reduction

The PRGF [Poverty Reduction and Growth Facility] is an innovative instrument in the IMF's efforts to make globalization work for the benefit of all: first, because it aims at tackling poverty from its root causes; and, second, because its concessional character demonstrates practical solidarity with the poor. Disengagement from the poor countries would be inconsistent with the mandate of the IMF and it would also deepen the division of the world.

The PRGF is also a key vehicle to help make the HIPC [Heavily Indebted Poor Countries] Initiative a success. In no area is cooperation between the Bank and the IMF in the coming months more critical than here. The ultimate test of the success of this initiative is how effectively debt relief contributes toward poverty reduction.

A real breakthrough in poverty reduction will be possible only if private saving and investment take firm roots in these countries and if a much larger part of the savings generated in the world becomes available to them. In this context, credit is and will remain an important financing instrument for investment and is thus also crucial in any longer-term strategy for fighting poverty. Therefore, we must not lose sight of the need to preserve and build a sound credit culture. Trust in creditor-debtor relations is indispensable for a sustained flow of investment capital to the developing countries and—in a wider context—for the long-term stability of an integrated international financial system. This highlights even more the need for steady work on the ground to strengthen the institutional underpinnings for a productive private sector in the developing countries. Every day that passes unused for this work is a day lost in the fight against poverty.

IMF transparency and accountability

The IMF of the future should be a strong advocate of improved governance in all member countries. It is, therefore, only logical that the IMF itself has to be receptive to calls for increased transparency and accountability. There has already been a sea change in opening up to the public. And we have just decided to expand further our program of voluntary publication of country reports and staff assessments. Moreover, the Executive Board has now paved the way for making an independent Evaluation Office in the IMF operational [see page 307]. However, we also have to recognize that there are areas where a frank and candid discussion would be hampered if it had to take place in public. The IMF has to strike a balance between openness and the member's desire for candid and confidential advice. And the IMF must explain itself better—what it is and what it does—particularly in program countries. Thus, the IMF has to expand its dialogue with the public and reach out, not least to civil society at the regional and local levels.

Köhler: The IMF of the future should be a strong advocate of improved governance in all member countries.

Conclusion

The IMF can make a difference for long-term growth to benefit all people of the world. For this, we have to be focused and concentrate, above all, on the stability of the international financial system. We will benefit from the enhanced partnership with the World Bank and cooperate closely with other institutions.

I see the discussion on changes in the IMF as a permanent process and consider it very important that these further discussions have their center within the IMF itself. I know that staff, management, and the Executive Board are deeply committed to the IMF's mandate and want to give their best. I call on the membership of the IMF to make good use of this dedication and work with the IMF in a new spirit of global partnership. ■

Chair's opening address

Manuel calls for help in closing poverty gap so all can share in benefits of globalization

Following are edited excerpts of the September 26 opening address of the Annual Meetings Chair, Trevor Andrew Manuel, Governor of the IMF and the World Bank for South Africa.

When we think about globalization—about progress on the one hand and increasing poverty on the other—we must not forget the specifics that add up to a new generation of human suffering that afflicts nearly half the world. We need to understand the dimensions of poverty, but more important, we need strategies to combat it and the faith that we can change things. We must take responsibility for our destiny and ownership of our future.

Manuel: "The great economic tragedy of our time is poverty."

In his opening address to the July 1944 conference that would establish the Bretton Woods institutions, U.S. Treasury Secretary [Henry] Morganthau referred to the great economic tragedy of our time—the prewar depression that would, among other factors, eventually lead to the outbreak of World War II. It was to prevent the repeat of depression and war that the Bretton Woods institutions were formed.

The great economic tragedy of our time is poverty. We have yet to overcome this tragedy. Despite all the progress we have made since 1944, we still live in a world where billions of people wake up every morning to hunger, disease, poverty, and despair—a world where, despite the advances in wealth and technology, we have not been able to breach the poverty gap.

All of us today face the urgent task of making sure that the benefits of globalization are equally spread. We welcome the rededication of the Bretton Woods institutions to the cause of reducing poverty. In so doing, we must recognize that the overarching purpose of the Bank and the IMF has remained essentially the same: to oversee the process of globalization and facilitate the integration of the nations of the world into the global economy in a mutually beneficial way.

Growing inequality poses the greatest risk to the future of the global economy. If the majority of the world's population is increasingly marginalized and economically disenfranchised, then globalization will fail. As custodians of the institutions that provide the anchor to the global economic system, we have a responsibility to ensure that globalization translates into a better life for all the peoples of the world.

The current robust state of the global economy is due in no small measure to the success of the fundamental reforms undertaken by developing countries. Their boldness needs to be matched by the richer countries.

But the positive outlook for the global economy masks the problem of continued widespread poverty and inequality. Africa has the most catching up to do, with projected growth for 2000 at 3.5 percent. This rate of growth in itself is a significant achievement, given huge terms of trade losses and natural disasters, and is the product of concerted macroeconomic reform across most of the continent. But it is still far below the 5 percent annual growth that is needed simply to keep the number of poor in Africa from rising. As Africans, we face a number of critical challenges. We need to remain focused on economic reforms and on building the institutional capacity that will ensure that the gains we have already made are enhanced. Our fiscal policies must remain focused on social development and infrastructure. We need to invest in education and training to overcome significant skills gaps. We must continue to strengthen our democracies by strengthening the institutions that underpin them—parliaments, the legal system, and civil society.

However, while there are many measures that African countries can take, it is important not to lose sight of the fact that sustained growth in emerging markets and other developing countries must be seen as a global project. Whether developing countries are able to benefit from the fruits of global growth depends not only on their own efforts but also on the efforts of those developed countries with which they share the global arena.

As long as developing countries remain debilitated by unsustainable debt burdens, required growth rates will not be achieved. Debt remains one of the major obstacles to sustainable growth and development. The enhanced HIPC [Heavily Indebted Poor Countries] Initiative has yet to be fully implemented, and full funding has yet to be realized. Another issue that we must give attention to is the burden being placed on bilateral debtors who are not Paris Club members to provide debt relief on comparable Paris Club terms. Unless wealthy countries take responsibility for a larger share of debt reduction, a disproportionate burden will fall on poor and middle-income countries that have often been creditors in the spirit of good neighborliness.

Let me now turn to a more universal problem, that of governance. Improving governance is essential. It is the responsibility of governments across the world to ensure that limited resources are effectively channeled to areas of need. Over the past decade, good governance has sadly become a standard conditionality in contracts between borrowers and lenders. I want to suggest that these conditionalities belong, rather, in the contract between a government and its people. Good governance has to be more than a euphemism for corrupt-free governments. It is about ensuring that elected office is the channel for the delivery of goods and services to citizens and not for the enrichment of those in office.

Despite substantial progress made in liberalizing trade regimes, developing countries still have difficulty benefiting from an improved global trade regime. The rest of the world is open only on a selective basis. The integration of world trade requires equal access for all countries and for all products and services. Fair access to the markets of the developed countries is critical to sustainable growth and development. It is imperative that we urgently refocus our efforts on a comprehensive and equitable conclusion of a new round of multilateral trade negotiations.

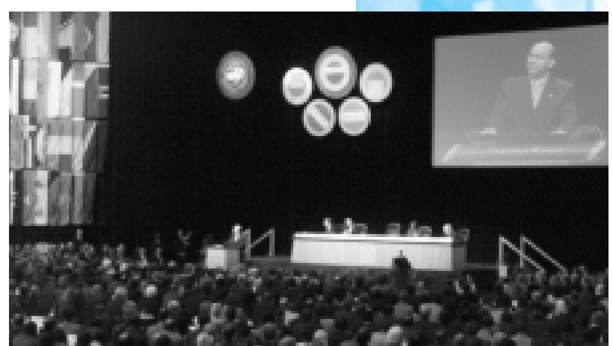
The continued decline in official development assistance is of great concern. Given the substantial savings gap in the poorest countries, debt relief is unlikely to be effective in helping our countries fight poverty without well-targeted aid. The added cost of dealing with HIV/AIDS and other communicable diseases only underscores the importance of additional financial assistance. The rich countries have never been richer, and the poor countries have never been more capable of managing aid; the decline in development assistance is inexcusable and should not be tolerated by civilized and compassionate societies.

Global institutions continue to have a critical role in addressing the fundamental structural weaknesses and imbalances that confront us. Growing inequality and persistent poverty, on the one hand, and the heightened fragility of the global economy, on the other, mean that the World Bank and the IMF continue to have a vital role. To respond to this role, these institutions have to reflect the needs of those they are designed to serve. This means not only a reconsideration of the governance structures to give a greater voice to developing countries but also a greater appreciation of what developing countries expect from the Bretton Woods institutions in terms of programs and products.

It is important that the voice of developing countries be heard more strongly in the Bank and the IMF. We must ensure that we can exercise ownership in a manner far beyond the outdated formulas that currently govern quota distribution. For this reason, it is imperative that the forthcoming discussions on quotas be viewed from the perspective of the needs of global development, rather than merely from the perspective that economic might is right.

We share a common vision of the world, free from poverty—a world where our unique collective intelligence and creativity can be used to enhance the well-being of all people.

In parts of the world, the promise and the potential of this economic liberation are becoming evident. But for most people, there has been no escape from grinding poverty. And because the hints of wealth from elsewhere have brought no escape, hope hangs on a thin thread. The challenge is to turn despair into hope—hope based on the knowledge that the world cares and rooted in our common humanity and our determination to ensure that our children and their children will enjoy a life rich in opportunity and free of poverty. ■



It is important that the voice of developing countries be heard more strongly in the Bank and the IMF.
—Manuel

IMF Executive Board approves Evaluation Office terms of reference

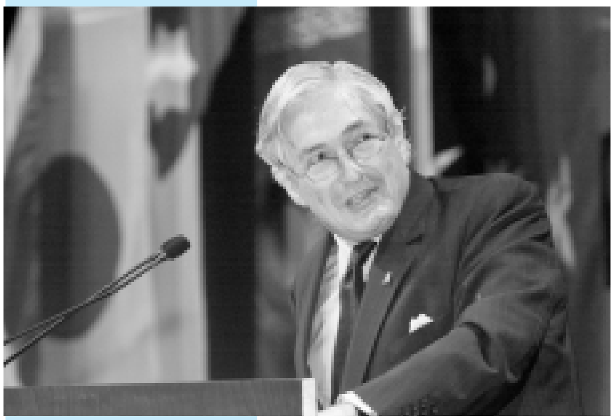
In a press release issued on September 14, the IMF announced that the Executive Board had approved the terms of reference for the independent Evaluation Office and a report to the International Monetary and Financial Committee. The Committee, at its spring meeting in April in Washington, had requested a report on the Evaluation Office to be ready in time for its September 24 meeting in Prague, prior to the IMF–World Bank Annual Meetings. The terms of reference for the Evaluation Office, along with the report to the IMFC and the text of Press Release No. 00/53, have been posted on the IMF's website (www.imf.org).

World Bank President's address

Wolfensohn calls on Governors to cooperate to build a more equitable world

Following is a summary of opening remarks by World Bank President James D. Wolfensohn on September 26 in Prague. The full text of his address is available on the World Bank's website (www.worldbank.org).

Stressing that the time is right for action, World Bank President James Wolfensohn called upon the Board of Governors to seize a historic opportunity to build an "equitable world." His address emphasized the complementary roles the World Bank and the IMF have in improving the quality of life and reducing poverty. While the Bank's core mandate is to reduce poverty, the IMF's key role is to promote and maintain a stable international financial environment conducive to growth and development.



Wolfensohn: "We must treat globalization as an opportunity, and poverty as our challenge."

As he embarked on his second term, Wolfensohn noted he had learned numerous lessons about development: it is about inclusion and empowerment, not charity; environmental issues do matter; money cannot be given to the poor with one hand and taken with the other—and thus the HIPC [Heavily Indebted Poor Countries] Initiative is vital; people the world over want the same things for their children; and if poverty is to be overcome, passion isn't enough. All countries must act effectively and persevere.

IMF issues external report on quota formulas

On September 19, the IMF announced in a news brief that it had released a report, prepared by outside experts, that reviewed the formulas used to calculate members' quotas. The experts had been charged with ascertaining if the quota formulas reflected, with reasonable accuracy, members' relative position in the world economy as well as their relative need for, and contributions to, the IMF's financial resources. Changes in the functioning of the world economy and the international financial system were considered, as was the increasing globalization of markets. The report contained recommendations to simplify the formulas and make them more up-to-date.

The full text of News Brief 00/90 is available on the IMF's website (www.imf.org).

Globalization

"We must treat globalization as an opportunity, and poverty as our challenge," Wolfensohn remarked, though he underscored that globalization is "about risks as well as opportunities." He argued that these risks must be dealt with at the national level by managing adjustment processes and strengthening social, structural, and financial systems and, at the international level, by establishing a stronger international financial architecture, fighting disease, and using the extraordinary power of new communications technology "to give voice to the voiceless."

Much progress has been made, Wolfensohn said, noting improved developing country policies, rising primary and secondary school enrollments, longer lives and reduced mortality among infants and mothers, and, in the economic sphere, falling inflation rates and rising investment. But he cautioned against focusing solely on the positive news. In many countries, he said, population growth, AIDS, internal conflicts and wars, and wildly fluctuating commodity prices had obliterated these gains and worse.

He also expressed deep concern over the continued sharp divide between rich and poor countries and between rich and poor within countries. The forces of globalization are making the world smaller, he noted, and poverty is "in our community, wherever we live. It is our responsibility."

Fighting poverty

In recent years, the fight against poverty has yielded valuable lessons. There is convincing evidence, Wolfensohn observed, that poverty is about a lack of voice as well as a lack of income. Market-oriented reforms can deliver economic growth, but growth is not sufficient. The poor must be able to build up assets of their own through access to education, health, and land, and deep-seated gender, ethnic, social, and racial inequalities must be confronted. Development needs to be comprehensive, he added, and—perhaps most crucially—it cannot be imposed from the top. Development must be "homegrown and home-owned."

Recognizing the importance of a comprehensive approach, the World Bank last year launched its Comprehensive Development Framework. This "holistic, long-term, and country-owned" approach, Wolfensohn explained, is now being implemented in 12 countries. Participation "delivers powerful results at the project and program level," and the Bank is also working at the national level, he said, to ensure that state institutions are more responsive to poor people. "Fighting poverty is also about fighting the vested interests of an economic elite."

Wolfensohn expressed confidence that ongoing information and communications revolutions would be key allies in the fight against poverty. They afford broader and more equal access to knowledge and information, greater empowerment and inclusion for local communities, and improved access to basic services. A series of Bank initiatives, he said, is tapping this technology to allow local communities to improve education, health care, and business opportunities.

Bank is delivering

Over the past five years, the World Bank has embarked on initiatives or boosted investment in a wide variety of key areas, Wolfensohn noted. It has focused more intently on social sector investment; expanded AIDS programs; initiated postconflict projects; designed and implemented, with the IMF, the HIPC Initiative; intensified anticorruption and good governance efforts; significantly increased its environmental portfolio; and worked on building sounder regulatory systems.

In the process, he added, the Bank has also strengthened the quality of its programs, moved its operations closer to its clients, and become more transparent. "We are a different Bank, doing development differently," he said. The Bank is still only halfway through a major reform effort, however, and the next five years "will focus still more sharply on implementation" and on improving collaboration with the IMF, relevant UN agencies, and other multilateral development banks.

Wolfensohn committed the Bank to working with governments, supporting fully owned country strategies, streamlining conditionality, being more responsive to individual country needs, reducing the administrative burden on clients, and providing speedier and more effective implementation.

Chiding developed countries for not keeping their side of the bargain, Wolfensohn pointed to aid far below international targets; financing still needed for deeper, faster, and broader debt relief; and trade barriers in need of dismantling. He also urged developed countries to explore innovative instruments to address AIDS, environment, education, and health needs; simplify procedures used by multilateral and bilateral donors; and recognize that more and more issues call for global solutions.

Wolfensohn cautioned that rising populations in the developing world will intensify the challenge. Without a commitment to development, he said, "we will not hold back the tide of deprivation, want, and despair"—with dark consequences for the future peace and stability of the world. But a wiser development community and a changing international institutional environment offer "a chance to make the next decade one of real delivery in the fight against poverty." He urged all countries to seize that opportunity. ■

Without a commitment to development, "we will not hold back the tide of deprivation, want, and despair."
—Wolfensohn

Havel calls for restructuring of values

Following is a brief, edited extract from the welcoming address by Czech Republic President Vaclav Havel to the Annual Meetings in Prague on September 26.

One of the principal themes of the various debates about the situation of today's world, and also of the discussions concerning the mission of the Bretton Woods institutions, is the deeply entrenched poverty of billions of people and the question of what can be done to combat it.

I am afraid that debates of this kind may make us susceptible to one danger—that we shall, unwittingly, begin to perceive poverty as a misfortune of the ones, and the fight against it as a task of the others; as if humanity was divided by fate into two parts—a relatively small group of people or countries that fare altogether very well, and a large group of people or countries that fare badly. As a result of which, the first group—for both humanitarian and security reasons—should help the second, financially as well as intellectually.

Today's extensive poverty is one of the most visible manifestations of our contradictory civilization—a civilization that we all help share in one way or another. We all are, to greater or lesser degree, jointly responsible for its good and bad traits, and solving the problems this civilization generates is our common task.

We often hear about the need to restructure the economies of the developing or the poorer countries and about the wealthier nations being duty-bound to help them accomplish this, If this is done in a sensitive manner, against a backdrop of sound knowledge of the specific environment and its unique interests and needs, it is certainly a worthy and much needed effort. But I deem it important that we should begin to also think about another restructuring—a restructuring of the entire system of values that forms the basis of our civilization today. This, indeed is a common task for all.

It is my firm belief that your deliberations will be successful and that you will agree on important strategies, programs, and reforms. But I also believe in something else: that you will conduct your talks against the background of a broadly conceived, open, and friendly discussion on the world of today—its problems, the root causes of these problems, and on the ways to solve them. No one who cares about the future of the human race should be excluded from these debates.

Havel: "Today's extensive poverty is one of the most visible manifestations of our contradictory civilization."

IMFC press conference

Brown reports committee reviewed outlook, financial sector reform, and oil prices

Following are edited excerpts from the joint press conference given by Gordon Brown, Chair of the International Monetary and Financial Committee (IMFC), and Horst Köhler, IMF Managing Director, on September 24 in Prague.

BROWN: I want to report on what has been a very useful and productive meeting. In his first meeting as Managing Director, Horst Köhler set out his vision for the future of the IMF. He set out his plans for reform and for achieving progress in crisis prevention and crisis resolution and also in the relationship between public and private sectors in dealing with these issues. He also noted the progress with the HIPC [Heavily Indebted Poor Countries] debt-relief initiative.

Brown: "Oil producers and oil consumers agreed that there is a need for stability."

I want to draw your attention to three of the issues that emerged during the course of our conversations today. We started with a review of world economic developments and looked at issues on each continent and also at the vulnerabilities in the financial sector and elsewhere, and how we can measure these risks and opportunities. We noted that we had the highest growth rate in the world for 12 years. But we are not complacent. The first issue that concerned us was external imbalances, and the potential challenges include imbalances in external accounts, the possible risks from misalignments in exchange rates, and the high levels of equity valuations in the major currency areas. We have examined these issues today in the context of the ECB [European Central Bank] intervention that took place on September 22 and, also, the long-term commitments to economic reform made by the euro area.

Second, we looked at the strengths of financial sector reform in relation to potential vulnerabilities, not least in emerging markets and developing countries. We noted the progress that has been made but also the progress still to be made in these areas.

The third issue was the current level of oil prices. The IMF has the great benefit of representing 182 nations. We had at our meeting today oil producers as well as oil consumers, rich countries as well as poor countries, and we found that there was common ground on several main issues relating to oil prices. First, oil producers and oil consumers agreed that there is a need for stability. They agreed, second, that there must be reasonable oil prices and, third, that there had to be an improved dialogue to look at issues relating to stability between oil producers and oil consumers.

KÖHLER: I am very satisfied with my first IMFC meeting. I think that, after this Annual Meeting, the IMF will be strengthened in its capacity to prevent crises and manage crises if they occur. And I am personally very satisfied, because the main ideas of my understanding, or my vision, of the IMF have been strongly endorsed by the Governors.

QUESTION: Can you be more specific about the discussion of an oil-related agreement? What would be, from a European viewpoint, a good agreement? Are there discussions for specific oil production? Also, is the high price of oil a problem for industrial countries or just for the poor countries?

BROWN: We looked at what would happen if current oil prices remained. We had information prepared by the IMF about the effect on growth. Clearly, this is a problem affecting the developing countries, and it will affect the heavily indebted poor countries as well. It is also a problem affecting the industrial countries, as we have seen from events in America, Europe, and elsewhere.

KÖHLER: We talked a lot about this because it is part of the process of multilateral surveillance. In my view, surveillance is one of the most important tasks that the IMF has to do. To conduct these discussions in the IMF means also that we have a membership where oil producing countries are involved in this debate. Based on today's discussion, I am encouraged that a dialogue will develop that will help us to define common interests for the global economy The oil producing countries are well aware of their responsibility for the global economy and particularly of the impact of these oil price hikes on the poor. Some countries have been very happy that we also had an exchange of views about the exchange rate misalignment. There was a bit of a debate in the run-up to today's meeting. I think the fact that the ECB acted, intervened, and coordinated—and that the IMF made clear that the euro is undervalued—was very much appreciated by many Governors.

QUESTION: India has questioned the one-size-fits-all approach to the observance of standards and codes.

What is your assessment? Also, can the IMF improve the situation of the commodity producers of the poorest countries?

Brown: While we must be sensitive to the problems countries face in introducing codes and standards, there's general agreement that greater transparency and greater surveillance are the way to ensure that the international economic system has a sounder and more effective base. Indeed, Horst Köhler made it a centerpiece of his proposals for the reform and improvement of the IMF. I believe, again, that common ground is being achieved.

If there were a sustained high level of oil prices, then we would have to look at what the IMF could do, particularly for heavily indebted poor countries. But it is also important to recognize that the level of oil prices at the moment—which has gone from $11 to more than $30—is itself a problem that must be dealt with directly. This view is shared by members of the IMFC, who agreed on the need for stability, a reasonable long-term price, further steps that have to be taken, and an improved dialogue to promote greater oil stability.

Question: Could the discussions of debt relief maybe send the wrong signal to the markets and to the involved countries that you do not have to pay for your debt?

Köhler: First, we should give the HIPC [heavily indebted poor countries] the debt relief that is promised. This is why Jim Wolfensohn and I decided to accelerate the process, bringing a further 10 countries to the so-called decision point by the end of this year. Debt relief is an important part of a comprehensive approach to combat and reduce poverty. The other elements of this approach are, first, to promote strong, sustained growth and to open markets to the products of developing and emerging market countries so that they can help themselves. I always tell Governors that they should also try to better convince the public in their home states to deliver more on official development aid. And, finally, if what we do is not based on good policies in the poor countries, it will not help. I also would like to add that debt relief cannot be a quick fix for everything. We particularly have to be careful not to destroy a credit culture that is needed for the long-term effort to combat poverty, because to combat poverty means that we need to organize savings also from international markets and to channel the savings into investments. To do this, you need to use credit instruments. Credit means that you trust the debtor to pay back his obligation.

Question: Today's changes to the IMF come after a lot of criticism in the streets, Congress, and academic think tanks. How have those criticisms affected what was decided today, and how is the IMF different today from what it was a month or two years ago?

Köhler: The vision I outlined was based on a considerable number of discussions, meetings, and travels. I spoke with academia, developing countries, and shareholders. I took into account all the discussions. I particularly listened to the membership of the IMF and to developing and emerging market countries, because they are the recipients of IMF support. Altogether, the reform concept that was today deepened and accelerated takes into account, first, that the IMF has to adjust to changes in the global economy. That means the IMF has to respond to the fact that global capital markets offer a huge potential for growth productivity, job creation, and income creation. But they are also a potential source of turbulence and crisis. Therefore, the Governors strongly endorsed the idea that the IMF must be at the center of the discussion about the stability of the international financial system, which is being seen as an important international common good.

Köhler: "The IMF has to adjust to changes in the global economy."

Second, there was a clear understanding that the institution, with its 182 members, is an asset, because when we talk about globalization—and our concept is to make globalization work to the benefit of all—we have to know that globalization means, first and foremost, a need for cooperation. And cooperation has to build on trust, first, that all members' interests are taken into account, and second—and equally important—that all members are aware of and act according to their responsibility to the fundamentals in their own country.

Selected IMF rates

Week beginning	SDR interest rate	Rate of remuneration	Rate of charge
September 11	4.64	4.64	5.38
September 18	4.65	4.65	5.39
September 25	4.67	4.67	5.41
October 2	4.74	4.74	5.49

The SDR interest rate and the rate of remuneration are equal to a weighted average of interest rates on specified short-term domestic obligations in the money markets of the five countries whose currencies constitute the SDR valuation basket (as of May 1, 1999, the U.S. dollar was weighted 41.3 percent; euro (Germany), 19 percent; euro (France), 10.3 percent; Japanese yen, 17 percent; and U.K. pound, 12.4 percent). The rate of remuneration is the rate of return on members' remunerated reserve tranche positions. The rate of charge, a proportion (115.9 percent) 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/sdr.pl).

Data: IMF Treasurer's Department

Then we had a clear understanding that we have to strengthen the ownership idea of our support. That means that we are going to concentrate our conditionality on priorities that are important to get macroeconomic stability promoted. But we are not going to go into too much detail with conditionality, trying to micromanage economies and societies.

QUESTION: Did the producing countries lead you to believe that if they wanted to lower the price of oil, they could do so, or are there other problems that are keeping oil prices high?

BROWN: This is a complex issue. Production went from 30 to 28. It has now gone up to 32. Some countries have the capacity to expand production, and some of those were with us today. It is therefore possible to see production increased and to see an effect on price.

QUESTION: You met with the Saudi Arabian central bank governor today before the meeting of the IMFC. Can you tell us what was said at that meeting and whether you expect Saudi Arabia to play a pivotal role in brokering some sort of deal with the OPEC countries?

BROWN: I cannot comment on behalf of the Saudi Arabian government. I know that discussions have taken place throughout the day. Many of the oil and finance ministers are now assembled in Caracas.

KÖHLER: I also had dinner yesterday evening with what we call the Group of 11. These are the 11 chairs from the developing and emerging market countries, and here more oil producing countries are represented. From this discussion, I can confirm that there is an awareness among the oil producing countries that it is also not in their interest for this excessive oil price to be in place for too long and that there is a common responsibility for the global economy to come back to more sustainable prices. I am optimistic that we will see some improvements in the not-too-distant future. ■

Joint press conference

IMFC, Development Committee emphasize that debt relief should lead to poverty reduction

Following are edited excerpts of a press conference held by Gordon Brown, Chair of the International Monetary and Financial Committee (IMFC) of the IMF, and Yashwant Sinha, Chair of the Development Committee of the World Bank, on September 24 in Prague. Stanley Fischer, First Deputy Managing Director of the IMF, and Sven Sandstrom, World Bank Managing Director, also participated.

At the IMFC–Development Committee press conference (from left) Stanley Fischer, Sven Sandstrom, Gordon Brown, and Yashwant Sinha.

BROWN: These joint meetings reflected our shared concern that debt relief should lead to poverty reduction and our recognition of the need to act with the new measures to make possible further progress for debt relief. We welcomed the determination of the World Bank and the IMF to do everything possible to bring 20 countries to the HIPC [Heavily Indebted Poor Countries] decision point by the end of 2000. Eleven countries have disqualified themselves from the debt relief. We have money for it, but debt relief will not lead to poverty reduction as long as there is conflict and civil war. We also discussed the effect of the oil price rise. The IMF may need to respond flexibly to the needs of members that arise from this sustained period of high oil prices. For the HIPC debt-relief process, this will have to be examined. Our way to the end is debt reduction leading to poverty reduction leading to economic development.

SINHA: I would like to assure you, on behalf of the Development Committee, that we will continue to work in the same spirit of collaboration and with the same zeal to achieve poverty reduction and the general well-being of the people in the poorest of the poor countries.

QUESTION: How do you plan to be more flexible in time regarding the HIPC Initiative? Please explain, also, the sunset clause mentioned in the communiqué.

BROWN: The sunset clause is an extension for two more years to allow countries to enter the process. As far as flexibility, the track record that had required a longer period of time will now require, if necessary, a shorter period of time. So it is flexibility in time without removing the requirement for conditionality.

QUESTION: The communiqué is silent on asking the industrial countries to provide duty-free, quota-free market access to the exports of the least developed countries that face a great burden in the international trading system. Is there any plan to ask these countries to provide market access?

BROWN: The IMFC communiqué raises these issues. And these issues are subject to debate in the WTO [World Trade Organization] and other organizations.

FISCHER: I'm not sure anyone will ask the right question, so let me mention that the IMF got very good news today about our ability to finance part of the HIPC Initiative. There was a need to borrow money from some of our members so that we could lend it in the HIPC Initiative and in the PRGF [Poverty Reduction and Growth Facility]. And today, we were told by both Germany and France that they would be willing to provide a billion SDRs each, which means we have 2 billion out of the total 4 billion as the loan resources for the PRGF. These very generous contributions are loans in which SDR interest rates will be paid. Nonetheless, they are very critical contributions to the success of the PRGF.

QUESTION: Can you say something about the problem of funding from the United States—whether that's likely to be overcome soon and whether it has inhibited any future proposals for extending the debt-relief initiative?

BROWN: [U.S. Treasury Secretary] Lawrence Summers has made it clear that one of the priorities for the president is to secure the funding for the initiative from Congress. It is also the case that the trust fund has $2.6 billion that countries have promised to it. That money is coming in. As I said in relation to conflict countries, it is not the lack of money that is the issue here. It is the lack of peace in these countries.

QUESTION: In the communiqué, you talk about welcoming steps to accelerate the process—flexibility in accessing a country's track record, which should help to bring forward countries originally expected next year. Does that mean that by January 2001 you expect more than 20 countries to have received debt relief under HIPC? Also, to what extent do the developing countries—the poorer developing countries that are suffering right now under the increased price of oil—have truckers and farmers and fishermen in the United Kingdom, France, Germany, Spain, the Netherlands, and Sweden to thank for pushing oil to the top of the agenda here?

BROWN: On the number of countries, the Joint Implementation Committee of the World Bank and the IMF has a list of countries that may be eligible. The list is greater than twenty, but they expect, and hope, to get 20 through by the end of the year. So there may be more countries, but they would have to meet the terms. As for flexibility in the track record, the time that people have to meet that track record has been interpreted more flexibly. That is the change that is being made there. On the question of oil, I'm sure this will be part of the discussion of the Development Committee tomorrow. For the poorest countries, the consequences of the oil price rise, if it were to be sustained, are such that we cannot stand back and say nothing about that. The consequences for many countries are devastating. That is why it was important for these countries to record that as a problem in the communiqué. ■

Sinha: "We will continue to work with the same zeal to achieve poverty reduction."

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

New Executive Directors elected

Four new members of the IMF's Executive Board were elected by member countries during biennial elections held in Prague at this year's Annual Meetings. The 24-member Executive Board is the IMF's permanent decision-making body and meets in continuous session at IMF headquarters in Washington. The Executive Directors and the member countries that elected them are as follows:

- **Michael Callaghan** of Australia: Australia, Kiribati, Korea, Marshall Islands, Federated States of Micronesia, Mongolia, New Zealand, Palau, Papua New Guinea, Philippines, Samoa, Seychelles, Solomon Islands, and Vanuatu;
- **Hernán Oyarzábal** of Venezuela: Costa Rica, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, Spain, and Venezuela;
- **Cyrus D.R. Rustomjee** of South Africa: Angola, Botswana, Burundi, Eritrea, Ethiopia, The Gambia, Kenya, Lesotho, Liberia, Malawi, Mozambique, Namibia, Nigeria, Sierra Leone, South Africa, Sudan, Swaziland, Tanzania, Uganda, Zambia, and Zimbabwe;
- **A. Guillermo Zoccali** of Argentina: Argentina, Bolivia, Chile, Paraguay, Peru, and Uruguay.

The two-year terms of these Executive Directors, and those of the 15 Directors reelected by their constituencies, begin November 1, 2000; 5 other Executive Directors are appointed by individual member countries—the United States, Germany, Japan, France, and the United Kingdom.

International Monetary and Financial Committee communiqué

Ministers reiterate central role for IMF, call for sharper focus on core areas of responsibility

Following is the text of the communiqué issued after the September 24 meeting of the International Monetary and Financial Committee of the Board of Governors of the IMF in Prague.

The International Monetary and Financial Committee held its second meeting in Prague on September 24, under the Chairmanship of Gordon Brown, Chancellor of the Exchequer of the United Kingdom. It welcomes Horst Köhler as the new Managing Director and looks forward to working with him on the continuing reform of the IMF and the strengthening of the international financial architecture.

German Finance Minister Hans Eichel (left) and French Finance Minister Laurent Fabius discuss issues before the IMFC meeting.

World economic outlook

The Committee welcomes the strengthening of global economic growth this year to the highest rate in 12 years. Economies in all major regions of the world have grown, and inflation remains generally under control.

While the overall outlook is positive, the Committee remains mindful of the significant remaining risks associated with the continuing economic and financial imbalances in the global economy. These potential challenges include imbalances in external accounts and the possible risk from misalignments in exchange rates and high levels of equity valuations in the major currency areas. The Committee considers that it will therefore be important to remain vigilant against inflationary pressures in the United States, and that national savings should increase; to pursue policies in Japan that are strongly supportive of self-sustained, domestic demand–led recovery; and to intensify the momentum of growth-supporting structural reforms in the European Union and in other advanced countries. In almost all developing and emerging market countries, continued progress with structural reforms—in particular through strengthening their financial sectors—is required to strengthen prospects for sustained economic growth. The Committee also expresses concern that, despite the strength of the global recovery, poverty remains unacceptably high, and many poor countries continue to face serious economic problems.

The Committee welcomes the gradual improvement in the last year in the terms and conditions of market access for emerging market countries, reflecting the better fundamentals in these markets. However, flows remain below precrisis levels, at higher spreads, and continue to show significant volatility, and market access remains extremely limited for some emerging markets.

The Committee is concerned that current oil prices, if sustained, could hamper global growth, add to inflationary pressures, and adversely affect prospects for many countries. It notes in particular the effect on the poorest countries and those highly dependent on oil imports. The Committee agrees on the desirability of stability in oil markets around reasonable long-term prices. It notes the recent U.S. decision to mobilize reserves and notes that some other industrial countries may be in a position to examine the possibility of doing so to help achieve greater stability. The Committee welcomes the steps the oil producing countries have taken this year to increase production and calls on them to take further steps to create conditions in oil markets conducive to healthy global growth. The Committee looks forward to improved dialogue between oil producers and consumers to promote greater oil market stability.

The Committee notes that, in the 10 years since the launch of the transition to market economies in eastern Europe and the former Soviet Union, much has been achieved. But the process has been difficult and remains far from complete, and progress has varied across countries. The Committee underlines that a key lesson from this experience is that transition economies that have made the greatest progress in establishing macroeconomic stability and implementing structural and institutional reforms have also achieved the best economic performance.

Future role of the IMF

The Committee strongly supports the objective of making globalization work for the benefit of all. In this respect, it endorses the Managing Director's vision of the future role of the IMF and looks forward to working with him on continuing reform of the IMF and strengthening the international architecture. While each country's own actions will inevitably be the most important determinant of its economic progress, all members of the international community have essential roles in supporting and facilitating these individual efforts. The international community must place renewed emphasis on promoting broadly shared prosperity, sustained growth, and poverty reduction. With its broad mandate and universal membership, the IMF, in partnership with the World Bank, is uniquely placed to serve its members, including the poorest countries, by contributing to this global effort.

The Committee notes the advances in applying the lessons of recent financial crises to the work of the IMF and the policies of its members. Many concrete steps have been taken or are under way to improve the functioning of the international financial system and to strengthen its capacity for preventing and managing financial crises. As a result, the international community has made progress toward dealing with difficult situations and managing their external repercussions.

But continued efforts for change will be necessary. The Committee calls upon the IMF, in particular, and the international community, as a whole, to continue to strengthen their efforts to reduce vulnerability and to avoid crises and, when crises do occur, to reduce their spillover effects. These efforts will need to focus on

- broadening and strengthening the IMF's surveillance of the domestic economic policies of all members and of the international financial system, including regional dimensions;
- continued promotion, development, and voluntary implementation, in a fully participatory way, of internationally agreed codes and standards, in cooperation with other bodies, as appropriate, supported by enhanced technical assistance; and
- constructive engagement of the private sector by the official sector.

The Committee reiterates that the IMF has a central role to play in bringing together the efforts of other global institutions to strengthen the international financial system in helping to ensure that all countries can benefit from globalization. It agrees that the IMF can best contribute to this global effort and strengthen its overall effectiveness by

- continuing to deepen its collaboration with other agencies and bodies. In that regard, it welcomes the initiatives of the Managing Director and the President of the World Bank to strengthen cooperation and complementarity between the two institutions;
- promoting, within the context of the IMF's mandate, international financial and macroeconomic stability and growth of member countries. The IMF must sharpen the focus of work in its core areas of responsibility: macroeconomic stabilization and adjustment; monetary, exchange rate, and fiscal policies and their associated institutional and structural aspects; and financial sector issues, especially systemic issues relating to the functioning of domestic and international financial markets.

The Committee stresses the importance of national ownership of IMF-supported programs for their sustained implementation. The Committee urges the Executive Board to take forward its review of all aspects of the policy conditionality associated with IMF financing in order to ensure that, while not weakening that conditionality, it focuses on the most essential issues; enhances the effectiveness of IMF-supported programs; and pays due respect to members' specific circumstances and their implementation capacities.

Poverty reduction and debt relief

The Committee affirms the IMF's enhanced role in poor countries. It considers that a lasting breakthrough in combating world poverty can be achieved only if the poorest countries are able, with the support of the international community, to build the fundamentals for sustained growth. Macroeconomic stability and structural reform will provide the conditions for private sector investment and growth and will, over time, allow countries to access international capital markets. The Committee also considers that international trade is critical for development and poverty reduction. To help ensure that the fruits of globalization are shared by all, it will be crucial that the access of developing countries, particularly the poorest, to industrial country markets continues to improve. Industrial countries should increase their official development assistance. The Committee encourages developing countries, for their part, to follow policies consistent with domestic macroeconomic stability and competitiveness in international markets; continue to reduce trade barriers; and implement other appropriately sequenced outward-oriented reforms that promote poverty-reducing growth, investment in human capital—particularly health and education—and development.

The Poverty Reduction and Growth Facility (PRGF) provides an essential framework, together with complementary assistance from the World

Bank, for supporting countries' own growth strategies and for enabling debt relief for heavily indebted poor countries to be translated into poverty reduction.

The Committee endorses the progress reports on the HIPC [Heavily Indebted Poor Countries] Initiative and poverty reduction strategy papers (PRSPs). It welcomes the progress made in developing country-owned poverty reduction strategies, including through the preparation of PRSPs, which now underpin the work of the IMF and the World Bank in low-income countries. It also welcomes the progress in implementing the enhanced HIPC Initiative and the commitment of the IMF and the Bank to do everything possible to bring 20 countries to their decision points by the end of 2000 to ensure that debt relief is provided in the context of a strong commitment to growth and poverty reduction. Recent shocks in terms of trade must not jeopardize this objective. The IMF, through its facilities, may need to respond flexibly to the needs of members that arise from a sustained period of high oil prices. Our efforts should be supported by increased technical assistance. The Committee urges members to work together and meet their commitments to full financing of the HIPC Initiative and the PRGF as soon as possible. It also urges all creditors to participate in the HIPC framework, while recognizing the special needs of particular creditors. The Committee looks forward to a productive discussion of the enhanced HIPC Initiative and the PRSP process at its joint meeting with the Development Committee.

Reform of IMF

Review of IMF facilities. Following the Executive Board's wide-ranging review of the IMF's nonconcessional financial facilities, the Committee welcomes the agreement reached on modifications that are intended to enhance the precautionary nature of the Contingent Credit Lines (CCL) and to preserve the revolving nature of the IMF's resources.

- The CCL has been modified, within its existing eligibility criteria, to make it a more effective instrument for preventing crises and resisting contagion for countries pursuing sound policies.
- The terms of Stand-By and the Extended Fund Facility (EFF) Arrangements have been adapted to encourage countries to avoid reliance on IMF resources for unduly long periods or in unduly large amounts.
- It has been reaffirmed that the EFF should be confined to cases where longer-term financing is clearly required.
- It has been agreed that enhanced postprogram monitoring could be useful, especially when credit outstanding exceeds a certain threshold level.

IMF surveillance, financial sector transparency. The Committee considers that IMF surveillance should be strengthened further and welcomes the recent initiatives in a range of areas. It reaffirms the role of the Article IV process as the appropriate framework within which to organize and discuss with members the results of work in these areas. Strengthened surveillance will help the IMF and its members to identify vulnerabilities and to anticipate threats to the financial stability of member countries. In this respect, it welcomes the continuing efforts to improve the IMF's understanding of its members' economies; the quality and availability of economic and financial data; Financial System Stability Assessments (FSSAs) derived from the joint IMF–World Bank Financial Sector Assessment Program (FSAP); Reports on Observance of Standards and Codes (ROSCs); and vulnerability indicators and early warning systems. It welcomes the joint Bank-IMF work on debt management guidelines, as well as the IMF's work on sound reserves management practices, and its role in assessing offshore financial centers.

The Committee recognizes that the IMF has to play its role as part of international efforts to protect the integrity of the international financial system against abuse, including through its efforts to promote sound financial sectors and good governance. It asks that the IMF explore incorporating work on financial abuse, particularly with respect to international efforts to fight against money laundering, into its various activities, as relevant and appropriate. It calls on the IMF to prepare a joint paper with the World Bank on their respective roles in combating money laundering and financial crime, and in protecting the international financial system, for discussion by their Boards before the spring meetings and asks them to report to the spring IMFC–Development Committee meetings on the status of their efforts.

The Committee is encouraged by the experience so far in preparing ROSCs and looks forward to the review later this year of the experience with assessing the implementation of standards. It notes their crucial role in helping countries to improve economic policies, identifying priorities for institutional and structural reform, and in promoting the flow of important information to markets. The Committee looks forward to the next review of the FSAP. It encourages members to participate in these initiatives.

The Committee notes that three issues at the core of the IMF's mandate also require further consideration: exchange rate arrangements; the sequencing of financial sector development and capital account liberalization; and the monitoring and analysis of developments in international capital markets. The

Committee encourages the IMF to deepen its work on international financial markets, including by improving its understanding of market dynamics and cross-border capital flows. It also urges the IMF to continue exploring ways of engaging more constructively the private sector on these matters, and welcomes the formation of the Capital Markets Consultative Group.

In the context of ongoing efforts to enhance the transparency and openness of the IMF, the Committee welcomes the Executive Board's agreement to adopt a general policy of voluntary publication of Article IV and use of IMF resources staff reports and other country papers. It encourages members to move in principle toward publication of these documents.

Private sector involvement. The Committee endorses the report by the Managing Director on the involvement of the private sector in crisis prevention and management. It welcomes the progress on developing a framework for involving private creditors in the resolution of crises. The Committee notes that this approach strikes a balance between the clarity needed to guide market expectations and the operational flexibility, anchored in clear principles, needed to allow the most effective response in each case. The Committee notes that IMF resources are limited and that extraordinary access should be exceptional; further, neither creditors nor debtors should expect to be protected from adverse outcomes by official action.

The Committee agrees that the operational framework for private sector involvement must rely as much as possible on market-oriented solutions and voluntary approaches. The approach adopted by the international community should be based on the IMF's assessment of a country's underlying payment capacity and prospects of regaining market access.

In some cases, the combination of catalytic official financing and policy adjustment should allow the country to regain full market access quickly. The Committee agrees that reliance on the catalytic approach at high levels of access presumes substantial justification, in terms both of its likely effectiveness and of the risks of alternative approaches. In other cases, emphasis should be placed on encouraging voluntary approaches, as needed, to overcome creditor coordination problems. In yet other cases, the early restoration of full market access on terms consistent with medium-term external sustainability may be judged to be unrealistic, and a broader spectrum of actions by private creditors, including comprehensive debt restructuring, may be warranted to provide for an adequately financed program and a viable medium-term payments profile. This includes the possibility that, in certain extreme cases, a temporary payments suspension or standstill may be unavoidable. The IMF should continue to be prepared to provide financial support to a member's adjustment program despite arrears to private creditors, provided the country is seeking to work cooperatively and in good faith with its private creditors and is meeting other program requirements. The Committee urges progress in the application of the framework agreed in April 2000 and in further work to refine the analytical basis for the required judgments, and it looks forward to a progress report by its next meeting.

Good governance and the IMF

The Committee views with concern a number of recent cases of misreporting to the IMF and stresses the importance of the steps being taken to improve the reliability of the information the IMF uses. It welcomes the application of the new safeguards assessment procedure to all new IMF arrangements, which will provide assurances of adequate control, reporting, and auditing procedures in borrowing countries.

The Committee strongly welcomes the Executive Board's decision to establish an independent evaluation office (EVO), including the agreement to publish promptly its work program, and the strong presumption that its reports would be published promptly. The creation of this office will help the IMF to improve its future operations and will enhance its accountability. It urges that the EVO become operational before the spring 2001 meeting of the Committee and looks forward to receiving regular reports on the EVO's work.

Quotas should reflect developments in the international economy. The Committee takes note of the Executive Board discussion of the work of the quota formulas group and looks forward to the Board's continued work on this issue.

The Committee takes note of the work of the Working Group to Review the Process of Selection of the Managing Director, which is being carried out in tandem with similar work in the World Bank on the Process of Selection of the President, and notes that the two groups will report together.

The Committee considers that the most valuable asset of the IMF is its outstanding staff, and the Committee highly values the staff's professionalism and dedication in executing the responsibilities of the IMF effectively and efficiently.

The Committee expresses its sincere appreciation for the excellent hospitality and support provided by the Czech authorities and the people of the Czech Republic.

The next meeting of the Committee will be held in Washington, D.C., on April 29, 2001. ■

IMFC–Development Committee communiqué

Ministers urge donors to meet commitments of financial support for HIPC initiative

Following are edited excerpts of the communiqué issued after the Joint Session of the International Monetary and Financial Committee (IMFC) and the Development Committee on the implementation of the HIPC [Heavily Indebted Poor Countries] Initiative and the PSRP [poverty reduction strategy paper] process on September 24 in Prague.

Ministers of the Development Committee and the IMFC met jointly on September 24 to review progress on the enhanced HIPC Initiative and the PRSP process. The joint meeting symbolizes the close cooperation and high political commitment of all countries and institutions to achieving a virtuous circle of debt relief, poverty reduction, and economic growth for the poorest countries of the world.

IMFC and Development Committee Chairs Gordon Brown (left) and Yashwant Sinha respond to press questions.

Ministers believed that solid foundations have been laid for further progress in turning last year's blueprints into this year's reality. They agreed that, since last year, good momentum has developed in both the HIPC and PRSP programs and that real progress has been made toward broader, deeper, and faster debt relief.

Ministers noted that 10 countries have already reached their decision points under the enhanced HIPC Initiative and have begun to receive relief. They welcomed the determination of the President of the World Bank and the Managing Director of the IMF to do everything possible to bring 20 countries to their decision points by the end of 2000. This is expected to result in combined debt-service relief (including original and enhanced HIPC assistance) amounting to well over $30 billion. Taken together with traditional debt-relief mechanisms, a total of about $50 billion will be provided to these countries. Ministers noted that interim assistance beginning at the decision point had accelerated the provision of relief and that the incorporation of the floating completion point offers qualifying countries the opportunity to reduce significantly the period between decision and completion point. In addition, ministers reaffirmed the objective of the enhanced HIPC Initiative to deliver debt sustainability and noted that, within the existing HIPC framework, the option exists at the completion point to reconsider the amount of debt relief for countries seriously affected by exceptional adverse shocks.

While it was recognized that implementation would ultimately be determined by country-specific factors, ministers welcomed recent steps to accelerate progress. These include, in particular, a closer working partnership between the Bank and the IMF through active work of the Joint Implementation Committee; flexibility in assessing countries' track records, which should help to bring forward countries originally expected next year; and greater focus on key reforms to accelerate growth and poverty reduction. Consistent with the goal of broadening the initiative, ministers supported the extension of the sunset clause for two more years to allow countries, particularly those emerging from conflict, time to enter the process. Ministers looked forward to consideration of Bank and IMF postconflict work at the time of the spring meetings [in April 2001].

Ministers reiterated the importance of fully financing the enhanced HIPC Initiative and urged all donors and creditors to meet their commitments of financial support.

Ministers recalled that a central component of the enhanced HIPC Initiative is the strengthened link between debt relief and poverty reduction, which is to be made operational through country-owned PRSPs. They were encouraged that as many as 13 countries had already completed interim PRSPs and that 2 had already completed full PRSPs. They also noted that countries and their development partners had responded positively to both the promise and the challenge of the PRSP process and were moving purposefully to put poverty at the center of nationally owned strategies. While reaffirming the principle of country ownership, ministers urged all development partners to increase their efforts to provide additional technical assistance to support countries' preparation of PRSPs, which should provide the context for IMF and IDA [International Development Association] concessional assistance as well as that of donors and other multilateral institutions. In this context, they welcomed the Bank's proposal to develop a Poverty Reduction Support Credit and the key changes in the IMF's Poverty Reduction and Growth Facility—for example, the enhanced link to PRSPs, ensuring appropriate flexibility in fiscal targets, and making budgets more pro-poor and pro-growth.

Ministers emphasized that the early progress achieved with the enhanced HIPC Initiative and PRSPs needed to be supported by a sustained global effort from eligible countries, development partners, bilateral donors, multilateral agencies, and international civil society to make best use of these new opportunities. ■

Development Committee communiqué

Ministers stress that global economy, technology should be source for economic, social progress

Following are edited excerpts of the Joint Ministerial Committee of the Boards of Governors of the World Bank and the IMF on the Transfer of Real Resources to Developing Countries (Development Committee) communiqué, issued on September 25 in Prague.

The sixty-second meeting of the Development Committee was held in Prague, on September 25, under its new Chair, Yashwant Sinha, Finance Minister of India. The Committee expressed its great appreciation to Tarrin Nimmanahaeminda, Minister of Finance of Thailand, for his valuable leadership and guidance to the Committee as its Chair during the past two years. James Wolfensohn, President of the World Bank; Horst Köhler, Managing Director of the IMF; and Carlos Saito, Chair of the Group of Twenty-Four, addressed the plenary session. Observers from a number of international and regional organizations also attended.

The ministers' discussions took place against the background of continuing public debate about the benefits and risks of globalization. Ministers stressed that the more integrated global economy and technological gains brought about by globalization should be a great source for economic and social progress, equity, and stability, but that these results are not inevitable. Ministers recognized their important responsibility to help ensure that globalization works for the benefit of all, and not just the few, and reemphasized their commitment to strengthening the Bank, the IMF, and other multilateral institutions as valuable allies in this effort whose ultimate objective is global poverty reduction, in particular halving the proportion in extreme poverty by the year 2015.

Poverty reduction, global public goods

In considering the role the Bank might play in global public goods in areas within its mandate, ministers noted four key criteria for Bank involvement: clear value added to the Bank's development objectives; Bank action to catalyze other resources and partnerships; a significant comparative advantage for the Bank; and an emerging international consensus that global action is required. They endorsed four areas for Bank involvement, in cooperation with relevant international organizations: facilitating international movement of goods, services, and factors of production; fostering broad inclusion in the benefits of globalization and mitigating major economic and social problems, such as the transmission of disease and the consequences of conflict; preserving and protecting the environment; and creating and sharing knowledge relevant to development.

Ministers warmly endorsed the greatly expanded efforts being made by the Bank, the United Nations, and other international, national, and private partners to combat communicable diseases, such as HIV/AIDS, malaria, and tuberculosis. Ministers noted the progress made since the April meeting of the Committee and were encouraged that the international consensus that AIDS and other widespread diseases created severe development problems was being turned into strengthened action.

Ministers noted the Bank's valuable role, in partnership with the IMF and other international agencies, in strengthening the international financial architecture. This includes helping to develop appropriate standards and codes, taking account of the developing country perspective in areas important to financial resilience and integration into the global financial system, and assisting countries to strengthen their related institutions and policies. Ministers also pointed to the importance for all nations of increased national and international efforts to combat cross-border financial abuse, such as money laundering. They urged the Bank to expand its program of technical and advisory support as a significant contribution to greater participation by developing countries in a more open and equitable world trading system. They reiterated both the promise and the challenge of communications technology to promote equitable growth and welcomed initiatives by the Bank to help provide greater access, in partnership with others, for poor countries and communities to the knowledge and information opportunities of the digital age.

Ministers recognized the need to explore further opportunities for securing appropriate financing for carefully selected priority global and regional programs with substantial impact on poverty reduction. This would require innovative use of World Bank lending and, in some cases, grant facilities, taking into account alternative sources of such funds and financial implications for the Bank, as well as of new forms of collaboration with international, bilateral, philanthropic, and private partners. They stressed that global public goods investments that benefited all countries should attract new resources.

The Committee looked forward to receiving, at its next meeting, a report on progress made in further delineating priority global public goods investment areas for the Bank, as well as on the division of labor between development partners and the development of appropriate financing arrangements.

Bank support for country development

Recognizing that working with individual countries remains the backbone of the Bank's business, ministers welcomed this initial opportunity for a broad review of the World Bank Group's role and instruments in support of member countries' development, taking into account the role of the IMF and other institutions.

Ministers emphasized that the Bank must tailor its support to reflect widely differing country situations. To help ensure that country programs are well grounded, ministers urged the Bank to continue to strengthen its country diagnostic and other economic and sector work. They stressed the need to focus on relevance to the country concerned and on opportunities for greater synergy with the work of the country and other development partners. Ministers noted that this analytic work, along with capacity building, took on added importance in light of the use of programmatic adjustment lending in support of borrowers' social and structural reforms and the vision for Bank and IMF roles and partnership set out in the September 5, 2000 Joint Statement by the President [of the World Bank] and the Managing Director [of the IMF].

Clare Short, U.K. Secretary of State for International Development, and Abdulla Hassan Saif, Bahrain's Minister of Finance and National Economy, await the start of the Development Committee meeting.

Ministers welcomed the Bank's overall approach for low-income countries and its proposals for achieving greater coherence among various program documents and instruments, including basing Country Assistance Strategies on poverty-reduction strategy papers. Ministers welcomed the discussion of a poverty-reduction support credit that would support poverty-reduction strategies of governments and complement the IMF's PRGF [Poverty Reduction and Growth Facility]. They suggested that in its further definition of the instrument, the Bank should also address the nature of the analytic work needed to underpin it, such as public expenditure reviews and poverty and fiduciary assessments. They also requested the Bank and the IMF to review the modalities for their cooperation in implementing both the Bank's support credit and the IMF's PRGF. Ministers stressed the importance of effective Bank-IMF coordination, given the significant role the institutions play in support of poverty reduction in low-income countries.

Ministers reaffirmed the very important continuing role of the World Bank Group in helping to reduce poverty in middle-income countries, home to so many of the world's poor.

HIPC Initiative

Ministers welcomed the progress achieved in implementing the HIPC [Heavily Indebted Poor Countries] Initiative and urged that all appropriate steps be taken to further strengthen the process. They noted that the enhancements endorsed at their meeting last year are resulting in "deeper, broader, and faster" debt relief to eligible countries undertaking the economic and social reforms needed to reduce poverty. They noted in particular that to date, 10 countries have reached their decision points under the enhanced framework, and work is being accelerated within that framework to try to reach the goal of bringing 20 countries to this point by the end of the year. This is expected to result in combined debt-service relief (including original and enhanced HIPC assistance) amounting to well over $30 billion. Taken together with traditional debt-relief mechanisms, a total of about $50 billion will be provided to these countries.

Ministers also welcomed the increased efforts to improve implementation of the initiative. They asked that the Bank and the IMF continue to work with other creditors and eligible countries to ensure that the modifications to the original HIPC framework (reflected in the enhanced initiative endorsed a year ago), such as the provision of interim assistance beginning at the decision point and adoption of a floating completion point, provide the much-needed support to qualifying countries on a timely basis. Ministers expressed support for the strengthened partnership between the two institutions in implementing the initiative and for their commitment to move forward as expeditiously as possible. It was recognized, however, that the pace of implementation would also be determined by country factors. Ministers supported maintaining a flexible approach with respect to track record requirements. They endorsed the extension of the "sunset clause" until end-2002 to allow additional countries, particularly those emerging from conflict, to participate in the initiative. Ministers also reiterated that within the existing HIPC framework the option exists, at the completion point, to reconsider the amount of debt relief for countries seriously affected by exceptional adverse shocks.

Ministers stressed the importance of fully financing the enhanced HIPC Initiative without compromising concessional facilities such as IDA [International Development Association]. They urged all donors to meet their commitments of financial support and welcomed the arrangements in place to accomplish this objective. While recognizing the special needs of particular developing and low-income transition country creditors, ministers also urged all creditors to participate in the debt-relief framework.

Poverty reduction strategy papers

Ministers reviewed progress with respect to the poverty reduction strategy approach, endorsed at their September 1999 meeting, as a way to strengthen the link between poverty reduction, HIPC debt relief, and Bank and IMF concessional lending. They noted the growing momentum in the adoption of the approach and the positive response to it on the part of countries and development partners. Ministers recognized the challenges countries faced due, among other things, to limited data and institutional capacity but urged movement from interim to full poverty reduction strategy papers on a timely basis. While strongly reiterating the core principle of country ownership, ministers called on the Bank, the IMF, and other agencies to provide appropriate technical support for countries' strategy preparation efforts.

Appreciation

Ministers took this opportunity to express, on behalf of all member governments, their appreciation to IMF and Bank staff for their continued hard work and high level of dedicated service for the goals of the Bretton Woods institutions.They also expressed their deep gratitude for the warm hospitality and support provided by the Czech authorities and the people of the Czech Republic.

Next meeting

The Committee's next meeting is scheduled for April 30, 2001 in Washington, D.C. ■

Managing Director's closing address

Köhler stresses need to work together to ensure that globalization benefits all

Following are edited excerpts of IMF Managing Director Horst Köhler's remarks at the closing Joint Session of the Annual Meetings on September 27 in Prague.

These have been very productive meetings—not just in the formal sessions, but in many personal encounters and discussions with constituencies within the IMF. The theme that has resonated in these meeting is clearly the need to make globalization work for the benefit of all. In this context, I would like to thank [Czech] President [Vaclav] Havel for reminding us, in his opening address, of the broader context of international economic policy and the need for ethical and spiritual dimensions. The president stressed that it is a dangerous mistake to view humanity as permanently divided into rich and poor. We need to act together in partnership and solidarity, mindful of our common humanity.

This principle is at the heart of my vision of the future role of the IMF. If I may use the words of Trevor Manuel, the institutions that provide the anchor to the global economic system have a responsibility to ensure that globalization translates into a better life for all. We must help our member countries take advantage of the opportunities of the global economy while finding better ways to contain the risks, so that they can achieve sustained growth and reduce poverty. I have been heartened by Governors' overwhelming support for the vision of the future of the IMF outlined in my opening statement [see page 303].

We all came to Prague for wide-ranging deliberations on crucial problems facing the global economy. Unfortunately, these days were marred by the violent and destructive behavior of a few who are not interested in dialogue and democratic processes. I am deeply saddened that the people of this beautiful city have suffered damage and even injury. The authorities have shown admirable composure and restraint under the circumstances. And thanks to their efforts, our meetings have continued.

World economic outlook

In the multilateral surveillance discussion of the International Monetary and Financial Committee last weekend, we examined the risks to the sustainability of the current global economic expansion, particularly the imbalances among the economies and currencies of the largest industrial countries and the situation in world oil markets. There was a common understanding that the current level of world oil prices is not in the interest of either oil-consuming countries or of oil producers. High oil prices are particularly harmful for the poorest countries. There was also broad interest in a producer-consumer dialogue aimed at promoting greater stability in oil markets. On the whole, Governors expressed confidence in a further positive outlook for the world economy.

Governors also agreed on the need for more ambitious reform in the industrial countries. In that context, they welcomed the recent commitment to deepen structural reform in Europe, as well as the actions by the European Central Bank and other major central banks to support the euro.

We can all agree that the mandate of the IMF demands that the IMF speak up not only on exchange

rate issues but on trade issues as well. These are of importance for the global economy. The discussions at these meetings have underscored the urgency of providing developing countries with greater access to markets in developed countries as a key element in the fight against poverty.

International financial system

It was the clear sense of these meetings that our architecture initiatives have already helped to make the international financial system stronger. But it is also clear that we must do more to put crisis prevention at the heart of IMF surveillance. You have noted that the IMF must help its members build up data systems, identify sources of vulnerability, and strengthen their domestic financial systems. You have called for further efforts to safeguard the stability of the international financial system, which requires a deeper understanding of the dynamics of international capital markets and constructive engagement of private capital market participants. In this context, Governors have welcomed my initiative to establish a Capital Markets Consultative Group.

But many of you also noted the importance of tailoring the implementation of these initiatives to the particular circumstances of individual member countries and the stage of development of their financial markets, as well as the need for expanded and better coordinated technical assistance. And you have also underscored the importance of widespread consultation in the design of these initiatives.

Köhler: "Now, more than ever, globalization requires cooperation, and it requires institutions that organize this cooperation."

The recently concluded review of the IMF's financing facilities has helped sharpen our tools for temporary assistance to members, crisis prevention, and crisis resolution. It is clear that members recognize the need to preserve the revolving character of IMF resources and, thus, the need for conditionality. Governors, I am gratified that you have also encouraged our efforts to streamline and focus the conditionality of the IMF in order to enhance program ownership.

I trust that ownership is promoted when the IMF's conditionality focuses predominantly on the measures that really matter most for the achievement of macroeconomic stability and growth. In applying this approach, the IMF will need to work closely with other institutions, particularly the World Bank. Finally, you have welcomed the progress that the IMF has made in developing a framework for involvement of the private sector in crisis prevention and resolution and encouraged us to continue refining that framework and making it operational.

Poverty reduction and debt relief

The membership wants the IMF to stay strongly engaged with its poorest member countries. We will continue working closely with the World Bank to implement the participatory poverty reduction strategy approach. I took note of the importance you attach to this approach as a way to ensure broad input in the design of poverty reduction strategies—including by those who know the most about poverty, the poor themselves—but also of the burdens that this approach is placing on administrative capacities. It is clear that the IMF, the Bank, and donors need to mobilize additional technical assistance to build institutional capacities for this purpose. And it is clear that the industrial countries must provide a much more appropriate level of official development assistance.

In reviewing the progress in implementing the enhanced HIPC [Heavily Indebted Poor Countries] Initiative, you have grappled with the complexity of balancing our desire for maximum speed with the need to ensure that debt relief contributes effectively to poverty reduction. I can assure you that [World Bank President] Jim Wolfensohn and I will be doing our utmost to ensure that debt relief is provided to as many countries as possible, as rapidly as possible, under the HIPC Initiative. I took note of the statements of many Governors, calling for deeper debt relief. But it is also clear that difficulties remain with the financing of the existing enhanced HIPC Initiative and that we need to focus on securing additional contributions so that no deserving country is refused assistance as a result of a lack of funding for the multilateral institutions, including the IMF.

Conclusion

My overall sense of these discussions is that there is agreement that now, more than ever, globalization requires cooperation, and it requires institutions that organize this cooperation. Its 182 members make the IMF a truly global institution, and the cooperative nature of the IMF is built deeply into the work of its Governors, Executive Board, management, and staff. Your comments during these meetings underscored the value that you attach to the cooperative nature of the IMF and your desire to strengthen it. ■

Köhler, Wolfensohn stress spirit of cooperation as asset in making globalization work for all

Following are the edited excerpts of the closing press conference by Horst Köhler, Managing Director of the IMF; James Wolfensohn, President of the World Bank; and Trevor Manuel, Finance Minister of South Africa and Chair of the Annual Meetings, on September 28 in Prague.

MANUEL: It is traditional that the closing press conference be held at about this time on the Thursday of the Annual Meetings. This year is no different. The plenary meetings concluded a bit early yesterday, and they concluded in the same spirit that has prevailed at Annual Meetings anywhere. Any country that asked for permission to speak had the opportunity to speak. And the number of speeches was the same as it has been over many, many years.

KÖHLER: Let me first sincerely thank the Czech authorities for the excellent organization of these Annual Meetings. Everything worked very well, and everyone felt the Czech authorities took care in the best sense. I would particularly like to thank the police and security forces who showed such composed restraint. All of this demonstrates strongly the process that has taken place here in the Czech Republic to create a democratic and humane society. Prague and the Czech Republic can be proud of this meeting, how it was conducted, and the outcome. I have no doubt it will strengthen the stature and the reputation of this city.

We should strongly deplore the acts of violence of a small group of people who have not come to Prague for dialogue but for destruction. Jim Wolfensohn and I are open to dialogue and discussion, but we reject violence and pressure in this way because it will not contribute to improved policy or operations or a better world. Fortunately, these violent forces did not distract us from our work, which is to find ways to make globalization work for the benefit of all.

The IMF and the World Bank leave Prague clearly strengthened. The entire membership gave the IMF the strongest support for its mandate and work. Our 182 member countries urged us to continue our work and the process of reforms in the IMF, but also urged us to stay strongly engaged in the poor countries. The main guidance from the membership was for the IMF to be focused. This focus should strive to promote strong economic growth that benefits all people, and particularly open markets to get products and services from the developing world to the industrial countries.

The membership urged the IMF to be the center of competence in providing for the stability of the international financial system. This stability is a global public good. Further progress in ensuring a stable international financial system will be the most important contribution to strong growth and the creation of an environment where the huge pool of savings in the world will also be available for poor and emerging market countries.

The membership also urged the IMF to be an open institution and work with other institutions in a complementary fashion to provide global public goods. I was personally heartened by the membership's strong endorsement of my vision of the future role of the IMF. I want to include in this endorsement—and express my gratitude to—my management colleagues and the staff of the IMF, because they have worked with me on structuring a concept for the future role of the IMF that will contribute to a better world and make a difference in poor countries.

At the closing press conference (from left): Annual Meetings Chair Trevor Manuel, IMF Managing Director Horst Köhler, and World Bank President James Wolfensohn.

I also feel a new spirit of cooperation between the World Bank and the IMF. I am grateful for Jim Wolfensohn's openness, cooperation, ideas, and creativity. Close cooperation between the World Bank and the IMF based on their respective focuses should be a strong asset in this continuous work to make globalization work for the benefit of all.

We had an intensive and important discussion, particularly in the IMFC [International Monetary and Financial Committee] but also in the plenary meetings, about the outlook for the global economy. We are concerned about the oil prices. We know about the risks, the global imbalances between exchange rates, and the growth cycle of the economies. But clearly there is a broadly shared conviction that the outlook is positive and will remain positive if there is a good policy management behind it. And this meeting, particularly the IMFC meeting, where multilateral surveillance was in the foreground of our discussions, will help us to secure this good policy management. So I am optimistic that the world economy will stay on track with growth and job creation.

WOLFENSOHN: Let me thank Trevor Manuel for his chairmanship and say that I reciprocate the warm feelings Horst [Köhler] has expressed about the dialogue that he and I have had and the ever-growing partnership between the IMF and the Bank. I think all our shareholders were delighted with the progress we have made and the clarity with which we have set forth the respective roles of the institutions. This is a remarkable start, and I want to congratulate Horst on an absolutely first-class first meeting.

Let me also express my thanks to the Czech authorities for a remarkable event under very difficult circumstances. There could have been no better preparations for the meetings, nor better execution. I think I speak for all the delegates in saying that we're full of admiration and gratitude, particularly to the police. They carried out their responsibilities remarkably and with great prudence. Last night we visited some of the policemen at the hospital. All three of us personally expressed our thanks to those who were victims of the violence, which we deplore.

We have been looking for discussion, not destruction. Throughout the week we have had extensive—and, I think, productive—dialogues with many members of civil society who came here to vigorously express and exchange views. There was not always agreement, but there was, I think, an identification of the objectives that the Bank, the IMF, and many members of civil society share.

Our Governors have endorsed the Bank's policy, which is firmly rooted in the issues of poverty reduction and structural reform and making societies able to function and develop. They were acutely conscious, as was I, of the challenge that we have in the next 25 years when 2 billion people will be added to the developing world. All of us recognize that we will be able to meet this challenge only if we can have a partnership—not just between the Bank and the IMF but with all participants.

I want to pay tribute to [Czech] President Havel for the arrangements he made at the castle for dialogue and for setting the tone at our meeting. He focused on perhaps the most important issue of all—the issue of values and of common humanity, which is the issue of compassion. This is fundamental to our being able to do a job that will affect our fellow citizens of the world.

Two other points came out in our meetings. HIV/AIDS is not just another health problem; it is a problem of existence. It is a challenge of enormous proportions, most notably in Africa. I was delighted that so many of our Governors were concerned with this and the importance we should attach to it. We are also in a new age in which communication becomes critical. Technology and Internet technology are perhaps the most visible symbols of globalization. People who organize rallies use it; we use it; and countries in development should use it.

All in all, this was a highly successful meeting, marred only by the violence. We were able to achieve a lot, and I am very grateful to all Czech citizens for making it possible.

QUESTIONS: This meeting marks 10 years of reform in the transition economies of Russia and other countries of the former Soviet Union. What are your thoughts?

Does the new age of communication not imply these meetings are dinosaurs? Is there any thought of restructuring and scaling down these meetings?

Mr. Wolfensohn, you launched a dialogue with leaders of different faiths two years ago. What is the significance and future of this venture?

KÖHLER: The transition economies played a prominent role in our discussions. Our conclusion was that tremendous progress had been made in the transition to democracy and market economies, but there is still poverty in a lot of the transition countries, and a lot remains to be done in terms of structural reforms, so these countries must stay the course. My personal conclusion is that transition countries should speak up to the industrial countries and accelerate their structural reforms. This path is a win-win situation for both sides.

WOLFENSOHN: On the new age of communications, I must tell you that virtual meetings will never replace actually coming together because of the enormous number of personal interactions that occur at the formal and informal sessions. But I do agree that the size and scale of these meetings require a look, and my guess is that we will take a look.

The world faith and development dialogue started two years ago when the Archbishop of Canterbury and I convened a meeting of faith leaders. It was important to bring the religions together with the development institutions because religions, apart from their moral and ethical strength, have the best distribution network of any NGO [nongovernmental organization] in the world. They are in all the villages.

QUESTIONS: How do you intend to get the developed countries to take additional steps for the poorer countries? What tools are at your disposal?

Mr. Köhler's speech highlighted the need for increased access for developing country products. Will the IMF and the World Bank issue a joint policy paper on this, and would you place it on the agenda in your meetings with the WTO [World Trade Organization] and the OECD [Organization for Economic Cooperation and Development]?

Should private sector involvement in resolving financial crises be voluntary?

KÖHLER: Getting concrete results in terms of better market access and more official development aid starts with greater public awareness. I am grateful that public discussions about poverty have heightened awareness in industrial countries about the interrelation between the poor world and the rich world. My objective—my dream—is that industrial country parliaments will more carefully discuss these issues and conclude that poverty can no longer be ignored if we hope to sustain prosperity in the rich countries. I have spoken up, and it is part of the IMF's multilateral surveillance mandate

to promote global economic growth. In terms of a more concrete paper on market access, I think, Jim, we should prepare this paper and discuss it with the WTO and the OECD.

My philosophy in terms of private sector involvement is clear, and it was endorsed. We have to work with the private sector. It has the capital in terms of volume, creativity, and sophistication. It would be a mistake not to use this potential, but the private capital markets need to know the rules of the game, and we are working on this. The principle is also clear on how we get a predictable framework for private sector involvement. For as long and as far as possible, there should be a voluntary approach; we are in the process of refining this framework. I am quite optimistic about a good outcome.

QUESTIONS: Mr. Wolfensohn, the majority of nonviolent protesters believe the IMF and the World Bank are responsible for the misery in the Third World. Do you share this view?

The activist role in propping up the euro was missing in the Asian crisis. Would you take up this activist role wherever a country faces an exchange rate crisis? Also, is the euro still heavily undervalued? And how big a risk do exchange rate imbalances still pose for the global economy?

What are you doing to increase the voting rights or quotas of the developing countries, particularly the two African constituencies in the IMF?

WOLFENSOHN: On the misery question, no, I do not think that the Bank and the IMF are responsible for the misery in the world. Actually, the Bank and the IMF have done quite a lot to address the questions of poverty and, in fact, to advance both governance and equity. It is very difficult to measure what the world would have been like without the Bank and the IMF, anymore than it is easy for critics to say that what we have done has damaged the globe. I am conscious of the criticism of some Bank projects, but the overwhelming image I have is of having improved the human condition. If I thought that we were damaging the world, I would have long since stopped this job. I, like anyone else here, am actually trying to make things better.

We are cooperating with more and more NGOs. We have something to learn from them, but from time to time, we have something to teach. The combination of the Bank with civil society and the IMF with civil society is unbeatable. My hope is that with the dialogue—admittedly very sharp at times—we can find areas of mutual advantage. What you don't hear about are the hundreds of interactions with NGOs that are positive.

KÖHLER: The Asian crisis was a banking crisis, a crisis of exchange rate regimes, a crisis of overinvestment, and maybe also a crisis of not enough attention to the countries. The conclusion is certainly that the IMF will have to pay more attention to exchange rate regimes and policies so that this kind of crisis does not happen again. This includes very ambitious work on crisis prevention, building up through our work on transparency, vulnerability analysis, standards and codes, our financial sector assessment programs, and stronger robust financial sectors that can absorb shocks better than in the past.

On the question of the euro, the ECB [European Central Bank] was right to intervene. Interventions are no panacea, but the intervention demonstrated the maturity of the ECB as an institution. This should make it clear to markets that there is an institution in command of the euro, and this should diminish the risk for the global economy. The future external value of the euro will depend, nevertheless, on further steps taken in Europe to accelerate structural change, make growth stronger, and, on this basis, convince markets that it is worthwhile to go into the euro.

On the voting rights, we should be realistic. The IMF should change. It should work on its efficiency, but its efficiency is also based on the absence of doubt about the substance of its foundation. It is a financial institution based on capital submissions. And this principle should be accepted. But having said this, there is a process for reviewing the quota formula. We have the Cooper Report [*Report to the IMF Executive Board of the Quota Formula Review Group*]. We have had a first discussion in the IMF's Board of Directors, which urged all participants to be systematic in the discussion and clearly indicated, as I see it, that no one has a desire to, for instance, reduce the African share.

Another element is the spirit of cooperation, and here we have made tremendous progress, not least in the context of reviewing the facilities. The outcome is a consensus on how we had streamlined and sharpened the facilities. I see some other possibilities to give the developing countries a stronger voice in the discussions and decision-making process in the IMF. I am working on this and hope we can deliver after some time.

QUESTIONS: There were high expectations on the eve of the Annual Meetings for deeper debt relief for the poorest countries. Have there been any moves to simplify HIPC conditions for poorer countries?

Middle-income countries have made tremendous efforts to improve their situations, yet find it difficult to gain market access. Did the meetings address this?

Mr. Köhler, how have you strengthened the financial system to meet the challenges of the new economy?

WOLFENSOHN: There were high expectations for deeper debt relief, but our own expectations were to advance the implementation of the second-round program of the enhanced HIPC facilities. Between now and the end of the year, we want to implement the enhanced HIPC Initiative for as many countries as possible. We are very hopeful that we will reach a target of 20 countries by the end of this year, at which point debt relief will be operative.

The middle-income country question was the first item on the agenda of the Development Committee, because it was very clear that more than a billion people were still living in poverty in middle-income countries. We are in the midst of an overall review with the Board and management, which will result in a report by the end of the year on greater support that can be given to the middle-income countries. I would also hope for a greater degree of parallelism between our activities and the IMF's—something we already have for the poorer countries.

A thursday press conference traditionally sums up the Annual Meetings.

KÖHLER: A lot of initiatives have been launched to strengthen the international financial system, particularly in terms of data and policy transparency. The most important part is getting people better informed and enabling them to make better decisions, including improving the private sector's risk assessment. An important part of this is our work on guidelines for sound debt management for all countries. There is already a lot of improvement of awareness, of maturity, in the developing world, and this will pay off. It may seem a bit strange coming from a finance man, but to make globalization work for the benefit of all, we must also be aware of and work for certain moral standards worldwide. A world economy needs a world ethic.

QUESTIONS: Don't you feel the early conclusion of the meetings will be claimed as a victory by the anti-globalization groups?

In light of continuing upward pressure on oil prices, would you invoke special facilities to help developing countries? And if so, when?

Mr. Köhler, are you trying to reestablish the centrality of the IMF in the debate on all exchange rates, including the three major currencies?

WOLFENSOHN: There was no victory in the streets. The legitimate voices of people who were concerned and who came here to engage in dialogue were enormously damaged by the groups that sought violence. What happened in the streets was tragic, because the dialogue was helpful.

As to the oil price question, we will stand ready to assist countries if, as, and when there is an issue of the effect of oil prices. Another issue is the impact of lower commodity prices for exports. We will respond on a case-by-case basis and stand ready to be supportive if there is a need.

KÖHLER: The violent groups clearly lost sympathy and were strongly rejected by the Czech citizens. I would like sometimes to see a bit clearer comment from some NGOs to distance themselves from violent activities.

On oil, I don't think it is the time to think about a new compensating facility. Neither oil consumers nor oil producers should have and could have an interest in the excessive prices that exist today. There is a dialogue, and we should and could expect the oil price to come down. But in the discussions in the IMFC and in the plenary meetings, there was the idea—and I responded positively—that the IMF should look at whether it could be flexible in the coming months about the impact of high oil prices on poor countries.

Exchange rate discussions are a part of the IMF's multilateral surveillance mandate. And the membership endorsed a strengthening of multilateral surveillance that includes the discussion about balances between the major currencies. But the IMF is not going to become the superbureaucracy for exchange rate policies. It's up to the central banks to do their job and governments to decide on the regimes.

MANUEL: Let me go back to the question about "victory." We come to the meetings as representatives mandated by our peoples, as members of the Bank and the IMF, as part of global governance. We should not cede that ground at any point. In South Africa, where I come from, we've had a hard struggle to reach sovereignty. As a country and as a people, we are not about to give it up. Part of taking responsibility for democracy is engaging globally with other countries

Members' use of IMF credit
(million SDRs)

	During August 2000	January–August 2000	January–August 1999
General Resources Account	**265.92**	**2,469.95**	**7,820.91**
Stand-By Arrangements	265.92	1,808.63	5,541.17
SRF	0	0	3,636.09
EFF	0	661.32	1,599.34
CFF	0	0	680.40
PRGF	53.12	275.04	571.68
Total IMF credit	**319.04**	**2,744.99**	**8,392.59**

SRF = Supplemental Reserve Facility
EFF = Extended Fund Facility
CFF = Compensatory Financing Facility
PRGF = Poverty Reduction and Growth Facility
Figures may not add to totals shown owing to rounding.

Data: IMF Treasurer's Department

to ensure that we can deal with what we need to be doing and ensure that there is better equity in the world.

What emerges from these Annual Meetings is a very strong renewed mandate to the Bank and the IMF to recognize the inequities and find the mechanisms to respond in a complex environment, in a difficult set of institutions. But the mandate is abundantly clear. It supports a vision that was brought in by Mr. Wolfensohn and Mr. Köhler. We must support them to transform the institutions so that life for the poor in the world can get better. And the poor need to continue to be represented by democratic governments. ■

Stand-By, EFF, and PRGF arrangements as of August 31

Member	Date of arrangement	Expiration date	Amount approved	Undrawn balance
			(million SDRs)	
Stand-By arrangements				
Argentina	March 10, 2000	March 9, 2003	5,398.61	5,398.61
Bosnia & Herzegovina	May 29, 1998	March 31, 2001	94.42	30.15
Brazil[1]	December 2, 1998	December 1, 2001	10,419.84	2,550.69
Ecuador	April 19, 2000	April 18, 2001	226.73	113.38
Estonia	March 1, 2000	August 31, 2001	29.34	29.34
Korea[1]	December 4, 1997	December 3, 2000	15,500.00	1,087.50
Latvia	December 10, 1999	April 9, 2001	33.00	33.00
Lithuania	March 8, 2000	June 7, 2001	61.80	61.80
Mexico	July 7, 1999	November 30, 2000	3,103.00	1,163.50
Nigeria	August 4, 2000	August 3, 2001	788.94	788.94
Panama	June 30, 2000	March 29, 2002	64.00	64.00
Papua New Guinea	March 29, 2000	May 28, 2001	85.54	75.54
Philippines	April 1, 1998	December 31, 2000	1,020.79	237.56
Romania	August 5, 1999	February 28, 2001	400.00	260.25
Russian Federation	July 28, 1999	December 27, 2000	3,300.00	2,828.57
Turkey	December 22, 1999	December 21, 2002	2,892.00	2,226.84
Uruguay	May 31, 2000	March 31, 2002	150.00	150.00
Zimbabwe	August 2, 1999	October 1, 2000	141.36	116.62
Total			**43,709.37**	**17,216.29**
EFF arrangements				
Bulgaria	September 25, 1998	September 24, 2001	627.62	209.22
Colombia	December 20, 1999	December 19, 2002	1,957.00	1,957.00
Indonesia	February 4, 2000	December 31, 2002	3,638.00	3,096.50
Jordan	April 15, 1999	April 14, 2002	127.88	91.34
Kazakhstan	December 13, 1999	December 12, 2002	329.10	329.10
Pakistan	October 20, 1997	October 19, 2000	454.92	341.18
Peru	June 24, 1999	May 31, 2002	383.00	383.00
Ukraine	September 4, 1998	September 3, 2001	1,919.95	1,207.80
Yemen	October 29, 1997	March 1, 2001	105.90	65.90
Total			**9,543.37**	**7,681.04**
PRGF arrangements				
Albania	May 13, 1998	May 12, 2001	45.04	9.41
Benin	July 17, 2000	July 16, 2003	27.00	20.20
Bolivia	September 18, 1998	September 17, 2001	100.96	56.10
Burkina Faso	September 10, 1999	September 9, 2002	39.12	27.94
Cambodia	October 22, 1999	October 21, 2002	58.50	50.14
Central African Rep.	July 20, 1998	July 19, 2001	49.44	32.96
Chad	January 7, 2000	January 7, 2003	36.40	26.00
Côte d'Ivoire	March 17, 1998	March 16, 2001	285.84	161.98
Djibouti	October 18, 1999	October 17, 2002	19.08	13.63
Gambia, The	June 29, 1998	June 28, 2001	20.61	10.31
Ghana	May 3, 1999	May 2, 2002	155.00	110.70
Guinea	January 13, 1997	January 12, 2001	70.80	15.73
Guyana	July 15, 1998	July 14, 2001	53.76	35.84
Honduras	March 26, 1999	March 25, 2002	156.75	64.60
Kenya	August 4, 2000	August 3, 2003	150.00	136.40
Kyrgyz Republic	June 26, 1998	June 25, 2001	73.38	38.23
Madagascar	November 27, 1996	November 30, 2000	81.36	9.48
Mali	August 6, 1999	August 5, 2002	46.65	39.90
Mauritania	July 21, 1999	July 20, 2002	42.49	30.35
Mozambique	June 28, 1999	June 27, 2002	87.20	42.00
Nicaragua	March 18, 1998	March 17, 2001	148.96	53.82
Pakistan	October 20, 1997	October 19, 2000	682.38	417.01
Rwanda	June 24, 1998	June 23, 2001	71.40	28.56
São Tomé and Príncipe	April 28, 2000	April 28, 2003	6.66	5.71
Senegal	April 20, 1998	April 19, 2001	107.01	42.80
Tajikistan	June 24, 1998	June 23, 2001	100.30	40.02
Tanzania	March 31, 2000	March 30, 2003	135.00	95.00
Uganda	November 10, 1997	November 9, 2000	100.43	17.85
Yemen	October 29, 1997	October 28, 2000	264.75	114.75
Zambia	March 25, 1999	March 28, 2003	254.45	234.45
Total			**3,470.72**	**1,981.87**
Grand total			**56,723.46**	**26,879.20**

[1]Includes amounts under Supplemental Reserve Facility
EFF = Extended Fund Facility.
PRGF = Poverty Reduction and Growth Facility.
Figures may not add to totals owing to rounding.
Data: IMF Treasurer's Department

Extended Fund Facility arrangements are designed to rectify balance of payments problems that stem from structural problems.

Group of Seven communiqué

Ministers see prospects for continued expansion, but express concern at impact of oil price rise

Following are edited excerpts of the statement issued by the Group of Seven finance ministers and central bank governors on September 23 in Prague.

We met today with the Managing Director of the IMF to review recent developments in the world economy and, with the IMF Managing Director and the President of the World Bank, discussed reform of the international financial institutions. We also discussed implementation issues of the enhanced HIPC [Heavily Indebted Poor Countries] Initiative and abuse of the global financial system.

IMF Managing Director Horst Köhler and World Bank President James Wolfensohn (far left) joined Group of Seven finance ministers and central bank governors for their discussion before the Annual Meetings.

Group of Seven economies

Prospects for continued expansion in industrial countries and the world economy more generally have further improved in recent months as underlying fundamentals have strengthened. A more balanced and therefore more sustainable pattern of growth among our economies is emerging. Continued vigilance, however, remains important, and we reaffirmed our commitment to macroeconomic and structural policies directed at improving conditions for strong and sustainable growth in each of our economies.

Oil prices

We are concerned about the adverse effects on the world economy of the recent sharp increase in the world oil price. It is important that world oil prices return to a level consistent with lasting global economic prosperity and stability for both oil producing and oil consuming countries and, in particular, for the poor developing countries. In light of continuing high prices and low levels of stocks, it is crucial for the world economy that OPEC [Organization of Petroleum Exporting Countries] and other oil producing countries take actions to contribute to a reduction in oil prices and greater stability in oil markets. Improved efficiency in the use of energy in all economies would contribute to that objective. We welcome the U.S. action to release a limited quantity of its oil reserves in the form of swap transactions. We agreed to remain in close contact and to continue our discussions with oil producing and oil consuming countries as we evaluate measures appropriate to the evolving situation in oil and product markets.

Exchange rates

We discussed developments in our exchange and financial markets. We have a shared interest in a strong and stable international monetary system. At the initiative of the European Central Bank, the monetary authorities of the United States, Japan, the United Kingdom, and Canada joined with the European Central Bank on September 22, in concerted intervention in exchange markets, because of the shared concern of finance ministers and governors about the potential implications of recent movements of the euro for the world economy. In light of recent developments, we will continue to monitor developments closely and to cooperate in exchange markets as appropriate.

Emerging market economies

Recovery in emerging market economies is well under way. Macroeconomic fundamentals have generally strengthened, and market sentiment remains positive. Policies in these countries must be directed at deepening economic reforms, in particular by improving underlying fiscal positions and debt structures and by strengthening the financial sector. Countries should, however, maintain the momentum for reform and address real and potential underlying vulnerabilities. We stress, in particular, the need for further progress in corporate and financial restructuring in many Asian countries and the need for policies aimed at reducing vulnerabilities in many Latin American countries.

Russia

We are encouraged by the continuing robust growth of the Russian economy this year, combined with a strong revenue and export performance, a comfortable balance of payments situation, and substantial accumulation of foreign reserves. We welcome the economic program of the government of the Russian Federation aiming at creating a legislative framework to improve the investment climate, structural reform, and financial stability. The recently approved tax reform is an encouraging sign of progress in implementing this program and in achieving sustainable growth. We call upon Russia to firmly implement other key structural reforms, such as securing property rights, enforcing the rule of law, combating money laundering, improving corporate governance, strengthening accountability and transparency in its central bank, and creating an efficient financial sector to unlock Russia's economic potential. We call upon the international financial institutions and Russia to work together to achieve this common goal.

International financial institutions

The international financial institutions are key players in ensuring that globalization is a force for good and that the poorest nations can participate in, and benefit from, the international financial system. We welcome the recent joint statement from the Managing Director of the IMF and the President of the World Bank Group, in particular their commitment to make these institutions work effectively together to increase the effectiveness and sustained impact of their operations to reduce poverty, increase growth, and strengthen the stability of the international financial system. We will continue to work together with other members of the international community to further strengthen the global financial system.

IMF reform

We welcome the Managing Director's commitment to reform of the IMF and look forward to working with him to ensure the IMF is well equipped to face future challenges. We note the progress achieved in strengthening the surveillance role of the IMF to help prevent crises and promote domestic and international financial stability and call on the IMF to speed up its work in this area. This includes strengthening the IMF's central role in the surveillance of codes and standards and promoting their implementation, greater transparency of the IMF's activities and members' policies, increasing the emphasis on national balance sheet and liability management, enhancing its ability to identify sources of vulnerability, and paying close attention to the appropriateness of a country's exchange rate regime. We welcome the recommendations by the Financial Stability Forum on promoting market and official incentives for the implementation of standards and codes.

We reaffirm the importance of building stronger and more resilient national financial systems in emerging market economies that can withstand the challenges that come with progressive financial liberalization. We call on the IMF to continue its work in this area.

We welcome the agreement achieved in the IMF to adapt its lending instruments to reflect better the realities of global capital markets—encouraging countries to take preventive measures to reduce vulnerabilities and providing temporary and appropriately conditioned support for balance of payments adjustment and, in defined circumstances, medium-term finance in support of structural reform, while avoiding unduly long, or repeated use of, and deterring large-scale access to IMF resources. We look forward to the upcoming review of conditionality associated with IMF lending to ensure that it is focused and addresses issues essential to the success of the program.

We welcome progress in developing a framework for private sector involvement in preventing and resolving crises. Private external creditors, including bond holders, have been more involved in the financing of recent IMF-led programs. We look forward to further progress at the IMF in making operational this approach in the design of IMF programs so as to provide greater clarity to countries and market participants. An efficient coordination with the Paris Club is also of utmost importance in this regard. We welcome the establishment by the IMF of a Capital Markets Consultative Group, which can play an important role in exchanging information with capital markets.

We look forward to ongoing improvements in the accountability and modernization of the structure and operation of the IMF itself. We welcome the agreement in the IMF Board on the terms of reference for the Independent Evaluation Office. We urge implementation of the IMF's recently strengthened framework for safeguarding resources. In addition, we call on the IMF to enhance its cooperation with other international institutions, including the World Trade Organization and the International Labor Organization. It is essential that the IMF's decision-making structure and its operation remain accountable. In view of the importance of having an allocation of IMF quotas that reflects developments in the world economy, we take note of the effort now under way in the IMF to examine the formula for calculating country quotas.

German Finance Minister Hans Eichel (left) confers with IMFC Chair and U.K. Chancellor of the Exchequer Gordon Brown.

Multilateral development bank reform

We reaffirm our commitment to multilateral development bank reform aimed at helping countries reduce poverty and welcome the substantial progress that has been made in translating these shared priorities into core policies and operational practices. The challenges are to build on this progress to translate the principles of good governance, selectivity, and accountability, and the importance of ownership and participation into concrete action aimed at a substantive development impact. ■

Group of 10 communiqué

Ministers voice support for involving private sector in crisis prevention and resolution

Following is the communiqué of the Group of 10 industrial countries, issued in Prague on September 24.

The finance ministers and central bank governors of the Group of 10 met in Prague on September 24. The meeting was chaired by Kaspar Villiger, the Minister of Finance from Switzerland. Ministers and governors took note of reports from Henk Brouwer, Chair of the Deputies of the Group of 10; Mario Draghi, Chairman of Working Party 3 of the Organization for Economic Cooperation and Development; and Andrew Crockett, General Manager of the Bank for International Settlements.

Group of 10 Chair Kaspar Villiger (left) welcomes the Chair of the U.S. Federal Reserve, Alan Greenspan.

Ministers and Governors exchanged views on the process of consolidation that is taking place in the financial sector. They noted that this process has generated institutions that are larger and more complex, with a geographical reach and a range of products that are much wider than in the past. They recognized that financial sector consolidation could have implications for financial risk, monetary policy, competition, and payments and settlements. They welcomed the efforts of their deputies to enhance official understanding of consolidation in the financial sector. Ministers and governors noted that the process of financial sector consolidation must be understood in the context of developments in the global economy.

Ministers and governors considered the efforts being made to strengthen the functioning of the international financial system. In particular, they supported the IMF in implementing the operational guidelines agreed in April in the context of the framework for involving the private sector in forestalling and resolving financial crises set out by the international community a year ago. They noted the importance of constructive dialogue between the private and official sectors and, in particular, communication between and among debtors and their creditors.

The Minister of Finance from Germany, Hans Eichel, was elected Chair of the Group of 10 for one year. ■

Group of 24 communiqué

Developing country ministers warn protection could impede efforts to reduce poverty

Following are edited excerpts of the communiqué issued by the Ministers of the Intergovernmental Group of 24 on International Monetary Affairs (the Group of 24) in Prague on September 23.

World economic outlook

Ministers note the continuation of the general recovery following the recent financial crises that severely affected developing countries. They express concern, however, over the large and persistent current account imbalances and currency misalignments among the major economies. Ministers stress that any sudden correction of those imbalances or misalignments, if not appropriately addressed, will pose significant risks to the stability of financial and commodity markets, intensify protectionist tendencies, and inflict disproportionately larger and more enduring costs on developing countries. Ministers express concern about the large cyclical swings in the price of oil. The instability in oil prices, together with the deterioration in the terms of trade due to the decline in other commodity prices, has implications for the balance of payments of developing countries. They stress that oil price stability benefits both producing and consuming countries, and they express the hope that mutually supportive measures on the part of producer and consumer countries could be implemented that would contribute to oil market stabilization.

Given that domestic policies of the major industrial countries have significant repercussions for developing country economies, ministers emphasize the imperative need for better coordination, coherence, and mutual reinforcement of macroeconomic and structural policies among the three major economies in order to reduce the risks and uncertainties in the global economy. They consider this to be the principal line of defense in the prevention of global crises. Ministers consider that multilateral surveillance has not been fully effective in promoting the much-needed coherence of the macroeconomic policies of the major industrial countries. This contributes to large fluctuations and misalignments among the major international currencies. They express concern that developing countries are forced to bear the burden of adjustment of such large swings in the key currencies.

Ministers reiterate the importance of developing countries' maintaining autonomy in the management of their capital accounts and in the choice of their exchange rate regimes. They consider that, in the rapidly evolving international environment, it is important to avoid extreme solutions for the economic problems faced by developing countries.

Growth and poverty reduction

Ministers express concern that protectionist measures employed by industrial countries vis-à-vis developing countries impede global employment growth and poverty-reduction opportunities. Average tariff levels applied to developing country exports by developed economies are four times higher than those applied to their peers. Furthermore, tariff and nontariff trade barriers are especially significant in areas in which developing countries have a comparative advantage, including labor-intensive activities such as textiles and services, as well as agricultural products. These trade policy matters are of global systemic significance and should constitute an important component of multilateral surveillance in a symmetric manner. Ministers also call for rapid trade liberalization and elimination of distorting domestic subsidies by developed countries, in particular to promote growth and strengthen poverty-reduction efforts in developing countries.

Ministers express concern about the slow progress in the financing of the enhanced HIPC [Heavily Indebted Poor Countries] Initiative, despite political expressions of intent by the Group of Seven and other industrial countries. The severe underfunding of the HIPC Trust Fund and the legislative delays in permitting the transfer of the remainder of the investment income from gold transactions to finance the IMF's share are indicative of the overall insufficient political support of the initiative. Ministers stress that the funding of the multilateral component of the initiative remains unresolved. Insufficient bilateral contributions will imply shifting the burden of mobilizing needed resources to other developing countries through an increase in lending charges or the diversion of poverty-reduction efforts and development finance. They call on industrial countries to provide sufficient additional resources and to accelerate their disbursements to ensure that all eligible countries could benefit from debt relief. Ministers also expect that all donors' contributions to the enhanced HIPC Initiative will not compromise other concessional flows.

Ministers consider that the initiative contains design flaws, such as the application of the Paris Club principle of comparability of treatment. This unreasonable expectation assumes that all other bilateral creditors, including developing countries and several HIPCs among them, should bear the same financial burden as the major industrial countries to support debt-reduction operations. In this context, ministers stress that particular attention should be given to providing financial support that allows the participation of those developing countries—including HIPCs—whose claims on other HIPCs represent a large proportion of their GDP and exports. In addition, they observe that a factor contributing to the slow pace of implementation of the initiative is the insistence on the receipt of all creditor contributions. In this regard, ministers propose that the provision of debt relief should always take place once a critical mass of contributions has been achieved.

Ministers regret that the donor community has not effectively addressed the situation of deepening poverty, heavy economic costs, and the debt burden in countries in conflict and in postconflict countries. They strongly urge the Bretton Woods institutions to take serious steps to help these countries accelerate their transition to peace, reconstruction, economic stability, and the normalization of relations with the international community.

Ministers note the additional flexibility that has been introduced in the process of preparing PRSPs [poverty reduction strategy papers] and interim PRSPs. However, they stress that, for the process to be successful, substantially more technical assistance will be required to improve the capacity of members to prepare suitable PRSPs, as well as to implement the commitments made in PRSPs.

Ministers note the intention to streamline IMF conditionality in PRGF-supported programs in order to better focus the IMF's role in the core areas of its mandate. They stress the importance of initiating this streamlining process with immediate effects for all new PRGF-supported programs. In the interest of preserving uniformity of treatment among members, they suggest that a review be conducted of all current PRGF-supported programs, with a view to reviewing and streamlining the structural conditionalities in these programs in line with the new approach being proposed by the Bank and the IMF. Ministers propose that the joint staffs of the two institutions prepare a report for the 2001 spring meetings, identifying progress in streamlining PRGF conditionality and establishing the Bank's Poverty Reduction Support Credit Facility.

Role of IMF and World Bank Group

Ministers take note of the joint statement of the IMF Managing Director and the World Bank President that defines their visions for the respective institutions. They welcome the efforts being made by them to move away from micromanagement in their conditionalities to emphasize country ownership and to invoke a more participatory approach. Ministers encourage them to resist noneconomic considerations in their decision

Carlos Saito (left), Chair of the Group of 24 and Advisor to the President, Banco Central de Reserva del Peru, with First Vice-Chair of the Group of 24 Senator Jubril Martins-Kuye of Nigeria.

making. Ministers note, however, that the vision presented by the Managing Director and the President is based on a world economy dominated by private capital flows. They stress that for a large number of developing countries, access to private capital markets is either costly, very limited, or unavailable. Moreover, even for countries with large access, capital flows could be volatile and destabilizing. Ministers consider that these international financial institutions should strive to ensure that the globalization process benefits all member countries through more evenly shared prosperity.

Ministers agree that the IMF, in collaboration with the World Bank, must focus on systemic issues relating to the functioning of financial markets. However, this priority should not replace or undermine the IMF's obligations in terms of its traditional responsibility to stand ready to support balance of payments adjustment of all its members, including the poorest among them.

International standards and codes

Ministers recognize the positive aspects of the development of international codes, standards, and best practices in the spheres of data dissemination, fiscal transparency and transparency in monetary and financial policies, and the management of debt as well as reserves. However, they note that the participation of developing countries in discussions on the development of these standards and codes has been limited, and they call for a more inclusive process. Ministers continue to underline the voluntary nature of implementing such codes and standards, taking into account the particular institutional capacities and stage of development of each country. They also stress the importance of the availability of appropriate technical assistance where needed. Ministers find the application of codes and standards to be highly asymmetric. Standards in the area of transparency are being pressed upon developing countries without a commensurate application of corresponding obligations for disclosure by financial institutions, including currently unregulated highly leveraged institutions. Ministers would insist that any monitoring of standards and codes within the corresponding competencies of the Bretton Woods institutions should be on a strictly symmetric basis. Moreover, compliance with such standards and codes should not be prematurely integrated into the Article IV consultation process and must not become a condition for use of IMF resources.

Governance of Bretton Woods institutions

Ministers express concern about the ever-mounting political pressures and noneconomic considerations that are interfering with the approval and implementation of the Bretton Woods institutions' programs and projects. These pressures and considerations are severely restricting the institutions' ability to fulfill their mandate. Ministers urge the Bretton Woods institutions to adhere

Available on the web (www.imf.org)

Annual Meetings 2000

The full text of speeches, addresses, press conferences, statements, and communiqués, as well as full reports on other activities taking place in connection with the Annual Meetings in Prague, is available on the IMF's website.

Press Releases

00/52: Mali Qualifies for HIPC Debt Relief Totaling $870 Million, September 12
00/53: IMF Executive Board Approves Evaluation Office Terms of Reference, September 14 (see page 307)
00/54: Communiqué of the International Monetary and Financial Committee, September 24 (see page 314)

News Briefs

00/82: IMF Completes First Colombia Review, September 7
00/83: IMF Completes First Review of Mali Under PRGF-Supported Program, Approves $9 Million Disbursement, September 8
00/84: IMF Completes Fourth Bulgaria Review, Approves $68 Million Credit, September 8
00/85: IMF Completes Review of Kyrgyz Republic Under PRGF-Supported Program, Approves $12 Million Credit, September 13
00/86: IMF Completes Final Mexico Review, September 14
00/87: IMF Completes Second Review of Indonesia Program, Approves $398 Million Disbursement, September 14
00/88: IMF Completes First Review Under Cambodia's PRGF Facility, Approves $10.8 Million Disbursement, September 15
00/89: IMF Completes First Argentina Review, September 18
00/90: IMF Issues External Report on the Quota Formulas, September 19 (see page 308)
00/91: IMF Signs Agreement with People's Republic of China to Establish Hong Kong Suboffice, September 23

Public Information Notices (PINs)

00/74: Sweden, September 8
00/75: Ecuador, September 7
00/76: Côte d'Ivoire, September 8
00/77: Swaziland, September 13
00/78: Tanzania, September 15
00/79: IMF Board Agrees on Changes to Fund Financial Facilities, September 18
00/80: IMF Executive Board Discusses Involving the Private Sector in the Resolution of Financial Crises, September 19
00/81: IMF Reviews Experience with Publication of Staff Reports and Takes Decisions to Enhance Transparency of the IMF's Operations and the Policies of Its Members, September 20
00/82: Indonesia, September 26

Press Briefings

International Capital Markets Report, September 11 strictly to the relevant provisions in their mandates, as stated in their respective Articles of Agreement.

Ministers welcome the decision of the Executive Board of the IMF on the establishment of an independent Evaluation Office, and they look forward to its significant contribution to enhancing the effectiveness, transparency, and accountability of the institution.

Ministers welcome the formation, in response to the request in the Group of 24 April 2000 communiqué, of Executive Board working groups in the Bretton Woods institutions to review the selection process of the Managing Director of the IMF and the President of the World Bank [see *IMF Survey*, April 24, page 129]. They consider transparency of the selection process, the full involvement of all shareholders in that process, and the selection on the basis of merit to be vital components of the reform of the institutions. Ministers look forward to the presentation of the final reports of the two working groups at the spring 2001 meetings.

Ministers welcome the ongoing discussion of a range of complex issues relating to the role, structure, and context of the IMF's quota formulas. They hope that these discussions will lead to a more balanced distribution of quotas between industrial and developing economies and the provision of a larger voice for developing economies in the decision making of the IMF. They also reiterate their support for a revision of the size of the basic votes.

Facilities of Bretton Woods institutions

Ministers note the intensive efforts currently under way for reforming IMF facilities and hope that the latest decisions of the IMF's Executive Board—especially the elements relating to making the CCL [Contingent Credit Lines] more attractive—would constitute an important improvement in the operation of the facilities. They note, in particular, that the preventative character of the CCL has been considerably strengthened by the proposed greater automaticity of its activation by countries faced with contagion. Ministers also welcome the increased incentives that the CCL could provide to eligible countries to maintain good policies. They urge the international community to support the early eligibility of interested members. Ministers underscore the following imperatives in the future evolution of the IMF's various facilities. First, there should be sufficient flexibility in the administration of the facilities to meet the diverse requirements of the IMF's heterogeneous membership, given their different stages of development and the variety of shocks affecting

IMF Deputy Managing Director Eduardo Aninat, left, welcomes Guillermo Ortiz, Governor of the Mexican Central Bank.

Speeches

IMF Deputy Managing Director Eduardo Aninat, "Getting the Job Done," *Miami Herald* Americas Conference, Miami, September 15

Comments by IMF First Deputy Managing Director Stanley Fischer at Federal Reserve Bank of Kansas City Economic Symposium, Jackson Hole, September 18

Letters of Intent and Memorandums of Economic and Financial Policies (date posted)

Mali, September 8

Bulgaria, September 11

Kyrgyz Republic (supplemental), September 14

Uganda, September 15

Cambodia, September 21

Heavily Indebted Poor Countries (HIPC) Initiative (date posted)

Mali, Completion Point and Decision Point Document, September 19

Poverty Reduction Strategy Papers (date posted)

Bolivia (interim), September 6

Chad (interim), September 6

Ghana (interim), September 6

Mali (interim), September 13

IMF Factsheets (date posted)

Debt Initiative for the Heavily Indebted Poor Countries, September 12

Poverty Reduction and Debt Relief for Poor Countries: What Is Being Done? September 23

Review of the IMF's Financial Facilities, September 23

Archives of the IMF, September 27

Other

IMF *Research Bulletin*, September 6

IMF and World Bank Group: An Enhanced Partnership for Sustainable Growth and Poverty Reduction, September 6

Enhanced HIPC Initiative Committed Debt Relief and Outlook Status as of September 7

Key Features of IMF Poverty Reduction and Growth Facility-Supported Programs, September 7

Poverty Reduction Strategy Papers—Progress in Implementation, September 8

Enhanced Initiative for Heavily Indebted Poor Countries—Review of Implementation, September 8

Financial Statements of the IMF for the quarter ending July 31, 2000, September 15

IMF Financial Activities, September 15

IMF Financial Activities, September 22

Logic of Debt Relief for the Poorest Countries, September 23

Heavily Indebted Poor Countries (HIPC) Initiative—Country Implementation Status Notes, September 23

IMF Center Features Permanent and Special Exhibits and Presentations, September 25 them. In this context, ministers propose that, should the present level of oil prices be sustained, access under the Compensatory Financing Facility and the PRGF should be more flexible. Second, changes in the facilities must not jeopardize the fundamental cooperative character of the IMF. Third, IMF financing should be complementary to borrowing from capital markets rather than a substitute, in view of the fact that structural reforms take relatively longer to formulate, implement, and bear fruit, depending on the country's degree of integration into the global economy.

Ministers note that surcharges adopted in the latest IMF decision on credit outstanding above a threshold level would not be changed for at least four years. However, they view that further increases in charges would not be desirable for the foreseeable future.

Ministers also note the intention to review the framework of adjustment lending, with a view to introducing a new approach that would focus more on social, structural, and institutional reforms. They expect that this will support countries' programs with minimal conditionalities.

Proposals to the international community

Ministers propose that the IMF deepen its studies of proposals for engaging, in a case-by-case manner, the private sector in the resolution of financial crises, including the development at the international level of equitable procedures for debt settlement that already exist at national levels.

Ministers reiterate their support for the study of a systemic emergency facility that could decisively underpin confidence in the international system when confronting extremely severe market crises. In this regard, ministers recall proposals for the IMF to be authorized in the event of a systemic liquidity crisis to provide, through the temporary creation of SDRs, additional liquidity as needed—and to withdraw it when the need has passed. Ministers reiterate their call for a study of this matter and propose its discussion at the autumn 2001 International Monetary and Financial Committee meeting.

Ministers reiterate their call for all IMF members to ratify the Fourth Amendment on the equity allocation of SDRs as soon as possible. ■

Recent publications

Books

Sovereign Assets and Liabilities Management, edited by Marcel Cassard and David Folkerts-Landau ($26.00)

World Economic and Financial Surveys

International Capital Markets: Developments, Prospects, and Key Policy Issues (September 2000), by a staff team led by Donald J. Mathieson and Garry J. Schinasi ($42.00)

Working Papers ($10.00)

00/124: *Cost of Living Adjustment and Business Cycles: Disaggregated Evidence*, Magda Kandil

00/125: *Costly Collateral and the Public Supply of Liquidity*, Philip Schellekens

00/126: *Life Cycles, Dynasties, Saving: Implications for Closed and Small, Open Economies*, Hamid Faruqee and Douglas Laxton

00/127: *Determinants of Inflation in the Islamic Republic of Iran—A Macroeconomic Analysis*, Olin Liu and Olumuyiwa S. Adedeji

00/128: *Real Effective Exchange Rate and the Constant Elasticity of Substitution Assumption*, Antonio Spilimbergo and Athanasios Vamvakidis

Policy Discussion Papers ($10.00)

00/7: *Large-Scale Post-Crisis Corporate Sector Restructuring*, Mark R. Stone

00/8: *Reconsidering External Financing of Domestic Budget Deficits: Debunking Some Received Wisdom*, Simon Gray and David Woo

IMF Staff Country Reports ($15.00)

00/95: Austria: Staff Report for the 2000 Article IV Consultation

00/96: Czech Republic: Staff Report for the 2000 Article IV Consultation

00/97: Ireland: Staff Report for the 2000 Article IV Consultation

00/98: Japan: Staff Report for the 2000 Article IV Consultation

Economic Issues (free)

No. 22: *The Challenge of Predicting Economic Crises*, Andrew Berg and Catherine Pattillo

Other publications

Annual Report 2000 (in French, German, and Spanish; free)

Annual Report on Exchange Arrangements and Exchange Restrictions 2000 ($95.00)

East Timor: Establishing the Foundations of Sound Microeconomic Management, Luis Valdivieso, Toshihide Endo, Luis Mendonca, Shamsuddin Tareq, and Alejandro Lopez-Mejia ($18.00)

The IMF and the Silent Revolution: Global Finance and Development in the 1980s, James M. Boughton (free)

IMF Glossary, English, French, Arabic (English CD Rom, $50; and Arabic, paper, $35)

Strengthening the Resilience of Financial Systems (The Per Jacobsson Lecture Series), Armanio Fraga, Peter B. Kenen, Jacques de Larosière (free)

Summary Proceedings Annual Meetings 1999 (free)

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IMF SURVEY

Global economy continues to strengthen, but higher oil prices and imbalances raise concerns

The global economic expansion following the slowdown of 1997–98 has continued to gain strength, with global output growth projected at 4.7 percent in 2000—0.5 percentage point higher than the May estimate—according to the IMF's latest *World Economic Outlook.* The improvement has been led by the continued strength of the U.S. economy, recoveries in several emerging market economies, a robust expansion in Europe, and a nascent—if still fragile—recovery in Japan. Nevertheless, the report cautions, economic and financial imbalances in the three main currency areas remain large, and higher oil prices have become an increasing concern. Also, a number of countries continue to experience serious economic problems—in some cases due to natural disasters and adverse movements in commodity prices—while the HIV/AIDS pandemic poses a severe human and economic threat, particularly in sub-Saharan Africa and parts of Asia.

Speaking at a press conference in Prague on the eve of the IMF–World Bank Annual Meetings, Michael Mussa, the IMF's Economic Counsellor and Director of the Research Department, said the world economy "in the first year of the new millennium is enjoying the strongest growth in more than a decade." Further, Mussa said, despite recent increases in oil prices, inflation in the world economy remains contained.

Virtually all of the world's major regions are recording strong growth, Mussa noted, led by the U.S. economy, which the *World Economic Outlook* projects will grow at 5.2 percent for 2000. Other cyclically advanced economies, such as the United Kingdom, Australia, Canada, and Ireland, also recorded strong growth performances.

In other regional developments, Mussa noted that emerging Asia has come back strongly from the crisis of 1997–98 and is turning in even stronger growth this year, while Japan now appears to be on course to recovery. Latin America, which, according to Mussa, had a "tough year" in 1999, is performing much better this year, while the transition economies are turning in their strongest growth performance since the start of the transition, led by the rapid recovery of the Russian economy from the severe crisis of autumn 1998. Other developing countries around the world, Mussa observed, are, with some exceptions, generally doing quite well.

Areas of concern

Despite the strength of the global recovery, the *World Economic Outlook* notes, many countries continue to face deep-seated economic problems, and 1.2 billion people still subsist on less than $1 a day. The report cites other areas of concern, including the following.

- A number of economic and financial imbalances remain, including the uneven pattern of GDP and demand growth among the three major currency areas and the associated imbalances in their current accounts; the apparent deviations of major currency exchange rates from medium-term fundamentals, particularly, the euro and the U.S. dollar; and the still high level of equity market valuations in the United States and some other countries.
- Oil prices have been significantly higher than previously expected, because of both supply constraints in producing countries and the continued strength of global demand. In fact, as Mussa noted in the press conference, the *World Economic Outlook*'s forecast for world economic growth in 2001 (4.2 percent), which was completed before the recent run-up in oil prices, may be at risk now.
- The amount of monetary tightening that may be needed to control inflationary pressures in the United States and some other countries is unclear, especially if the recent run-up in oil prices is sustained.
- As recent experience has shown, the continuing financial imbalances—combined with recent reductions in the depth of and liquidity in financial markets—could generate further volatility in mature financial markets.

Recent developments and projections

As noted earlier, the IMF staff's baseline scenario, as reported in the *World Economic Outlook*, envisages a modest slowdown in global GDP growth to 4.2 percent in 2001, followed by continued strong growth at about the same rate. This projection, however, is predicated on the assumption that the imbalances in the global economy are resolved in an orderly fashion and that the U.S. economy, in particular, experiences a soft landing. As Mussa explained, this means U.S. GDP growth would slow to about 3 percent in 2001 on a fourth-quarter to fourth-quarter basis, with unemployment rising modestly but enough to contain any significant further rise of inflationary pressures. Although the *World Economic Outlook* provides an alternate "hard landing" scenario for the United States, Mussa said that even with the spillover from the rise in oil prices, which will probably tilt real output growth downward for the U.S. and the world economy, as well as tilting "headline" inflation up, he expected the outcome would be similar to the baseline scenario, which posits a soft landing for the U.S. economy.

In Europe, the expansion in the euro area has gathered strength, with GDP growth rising to 3¼ percent

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in the second half of 1999 and continuing at a similar rate in the first quarter of 2000, according to the *World Economic Outlook,* while core inflation, at about 1.3 percent, has remained subdued. However, the euro hit record lows against the U.S. dollar and most other major currencies in mid-May and again in early September. By early September, the report notes, the euro had depreciated over 15 percent in nominal effective terms since its inception in 1999 and is below the level that could be justified by medium-term fundamentals.

As Mussa noted, the *World Economic Outlook* discusses a number of reasons why the euro has weakened, including faster growth in the United States than in Europe, the slow pace of structural reform, and a very strong U.S. dollar. However, he said, these explanations account for only about half of the depreciation of the euro; the rest, he suggested, was the result of the "manic-depressive nature of the market." It has shifted from depressive on the dollar to manic, thus pushing the euro too low, relative to a plausible assessment of fundamentals. In response to a question about the possibility of intervention in support of the euro, Mussa said the circumstances in which the major countries would want to use intervention to attempt to influence exchange rates are "relatively rare," but they do arise from time to time, and one would need to ask, "if not now, when?" Intervention that does not involve any change in monetary policies in the countries involved in the intervention has been shown to have relatively limited effects, he said. Intervention does tend to be significantly more effective when it is coordinated among the major countries and when those countries, in effect, send the signal that it is their joint judgment that markets have pushed exchange rates substantially away from fundamentals and some correction is warranted. [Subsequent to the press conference, at the initiative of the European Central Bank, the monetary authorities of the United States, Japan, the United Kingdom, and Canada joined with the European Central Bank on September 22, in a concerted intervention in exchange markets.]

In response to a question about the prospects for Africa and sub-Saharan Africa, David Robinson, Assistant Director in the Research Department, said that Africa was no exception to the general global pickup, with growth in 2000 expected to rise to 3.4 percent from 2.2 percent in 1999. The picture in sub-Saharan Africa, however, is mixed, depending on the effect of commodity prices. The oil exporters are doing well, but those countries dependent on non-oil commodity exports have suffered a "double whammy," because the prices of their exports have remained weak, while the price of oil has risen sharply. Robinson referred also to the *World Economic Outlook*'s coverage of the economic impact of AIDS. In many countries, over

David Robinson (left) and Michael Mussa at the press briefing on the World Economic Outlook.

20 percent of the adult population is infected by HIV/AIDS, providing a dramatic sense of the huge human and economic magnitude of the problems these countries are facing. Although some countries—like Uganda—have been able to keep the HIV prevalence ratio low through preventative measures, Robinson said in those countries where the ratio is very high, there will be a need not only for preventative measures but also for additional international assistance.

Special issues

The special topic highlighted in the *World Economic Outlook* is the transition economies, their experience over the past decade, and prospects, especially for candidates for entry into the European Union (EU). The first part of the review looks at the overall experience with transition, Robinson noted, covering not only Europe, Russia, and the other countries of the former Soviet Union but also Asia, including China.

One striking feature of the transition process, Robinson said, has been the generally better performance of the countries applying for EU membership. While some of this reflects more favorable initial conditions than those faced by others less advanced in the transition process, it also reflects greater strides taken toward structural and institutional reform.

The second part of the review looks in more detail at the European enlargement process from the perspective of both the accession countries and the European Union itself.

The *World Economic Outlook* also includes a number of shorter pieces on issues of interest, Robinson said, including evidence of the "new economy" in the United States and elsewhere and the implications for policies; developments in global equity markets; and developments in commodity prices, including oil. ■

The texts of both the *World Economic Outlook* and Michael Mussa's press conference are available on the IMF's website (www.imf.org). The print edition of the *World Economic Outlook* will be available in early November and may be obtained from IMF Publication Services. (See page 334 for ordering information.)