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Contents

1998 Annual Meetings Overview

Governors Stress Cooperative Approach to Crisis; Endorse Concept for New Financial Architecture

Gathering amid the most pervasive global turmoil in a generation, the governors of the IMF and the World Bank at their fifty-third Annual Meetings unanimously agreed on the need for an urgent cooperative effort to tackle the far-reaching problems facing the world economy. They also emphasized that priority should be given to developing the basis for a new financial architecture.

Entering the plenary session: (right to left) IMF Managing Director Michel Camdessus and World Bank President James Wolfensohn.

As IMF Managing Director Michel Camdessus put it in his opening address to the meetings on October 6, the crisis "has already cost hundreds of billions of dollars, millions of jobs, and the unquantifiable tragedy of lost opportunities and lost hope for so many people, particularly among the poorest." Four basic questions, he said, were: Where do we stand? What has gone wrong? What should be the basis for a new financial architecture? How can the international community move toward a more secure, stronger international monetary system?

At the meetings, held in Washington, D.C. on October 6–8, central bank governors and finance ministers representing the IMF's 182 member countries discussed the continuing impact of the crisis on both their national economies and the world economy as a whole. They expressed their serious concerns at the deepening recessions in Japan and several Asian economies; the impact of the financial crisis in Russia, stock market declines across the (Please turn to the following page)

Brazil and IMF Discuss Main Lines of Proposed Economic Policy Framework

Following is the text of a statement issued jointly by the IMF and the Brazilian authorities on October 8.

The Brazilian authorities and the IMF management have discussed during the Annual Meetings the main lines of the Brazilian government's proposed economic policy framework. The authorities have emphasized their determination, highlighted in the September 23 speech of President Cardoso, to put rapidly in place a strong, front-loaded, and sustained fiscal adjustment program designed to stabilize the ratio of the public debt to GDP by the year 2000. This will require the achievement as from 1999 of primary surpluses of the overall public sector in the range of 2.5–3 percent of GDP. The government is preparing the policy initiatives needed to ensure this outcome and intends to announce them as soon as feasible during the month of October. The authorities have also emphasized their firm commitment to their current exchange rate regime, the maintenance of a flexible interest rate policy, the nonimposition of any controls on capital outflows, the full service of the external and domestic public debt, and the continuation of their ongoing structural reform efforts in the social security system, the tax system, the budgetary system and institutions, the financial system, the labor market, and privatization, among others. The IMF management fully supports these policies. Discussions will continue in the days ahead, with the aim of reaching agreement soon on a detailed program of fiscal and other macroeconomic and structural policies that could be supported financially by the IMF and other members of the international community.

(Continued from the front page) globe, weakening prices for major commodities, and the impact that all these troubling developments were having on the orderly process of economic adjustment and prospects for growth in their economies. Amid this gloomy outlook, governors saw some positive developments, including continuing growth in the main industrial countries of North America and Europe; the contribution to monetary stability of European economic and monetary union (EMU); and indications that growth had been maintained in China and India and that some Asian crisis countries had moved toward financial stabilization and strengthened external positions.

Consensus of the Meetings

Summing up in his concluding remarks the consensus that had been reached at the meetings, the Managing Director said that there had been a sober and substantive assessment of the causes of the immediate crisis and its global effects. The governors had moved a long way forward in identifying the steps needed to address the crisis, he said, and were unanimous that "a global crisis requires a global response."

Camdessus also welcomed the general recognition among speakers that the globalized economy had brought enormous benefits. Although "serious flaws have been revealed in the system and prompt decisive action is called for," he emphasized, "there is no desire to turn the clock back." While the architecture of the system needed to be strengthened, this would not be by direct intervention. The same principles that have served so well at the national level must now be extended to the international area. The five key elements of the new financial architecture had been defined and endorsed in the discussions, Camdessus stressed. These are transparency, sound financial systems, private sector involvement, orderly liberalization, and internationally accepted standards and codes of good practice. He forecast that the work of following up on this agenda would add up to an ambitious work program in the coming months.

Opening Sessions

The Annual Meetings opened on October 6 with welcoming remarks by U.S. President Bill Clinton, who told delegates that the first and most important step was for governments to hold fast to policies that were sound and attuned to the realities of the international marketplace. He emphasized that "we must find creative ways to protect those countries that right now have strong economic policies, yet still face financial pressures not of their own making." For this reason, he said, U.S. Treasury Secretary Robert Rubin and the Chairman of the U.S. Federal Reserve Board Alan Greenspan had worked with their counterparts in the Group of Seven industrial countries "to find new ways to strengthen our cooperation based on the IMF to make precautionary lines of credit available to nations committed to strong economic policies, so that action can be quick and decisive if needed."

The president's speech was followed by those of the Chairman of the Annual Meetings, Wolfgang Ruttenstorfer, Secretary of State in the Austrian Finance Ministry; IMF Managing Director Camdessus; and World Bank President James D. Wolfensohn. The plenary sessions were preceded by meetings of the Interim Committee of the IMF's Board of Governors—the IMF's principal advisory body—and of the Development Committee (the Joint Bank-IMF Committee on the Transfer of Real Resources to Developing Countries), as well as by meetings of the Group of 24 developing countries and of the Group of Ten and Group of Seven industrial countries.

On October 8, the final day of the meetings, in an important move designed to prevent contagion from spreading to Latin America, the IMF and the Brazilian authorities jointly announced that they had discussed the main elements of a proposed economic framework that could be supported financially by the IMF and other members of the international community (see text of announcement, page 305).

Italy's Ciampi Named New Chairman Of IMF Interim Committee

The members of the IMF's Interim Committee have selected Carlo Azeglio Ciampi, Italy's Minister of Treasury, Budget, and Economic Programming, as Chairman of the Committee.


Carlo Azeglio Ciampi

Ciampi succeeds Philippe Maystadt of Belgium, who resigned in June 1998.

Ciampi has been Minister of Treasury since May 1996. He was Governor of the Bank of Italy from 1979 to 1993. In 1993 and 1994, Ciampi was President of the Italian Council of Ministers and from 1994 through 1996 served as Vice President of the Bank for International Settlements.

The Interim Committee was established in October 1974 to advise the IMF's Board of Governors on supervising the management and adaptation of the international monetary system as well as dealing with sudden disturbances that might threaten the stability of the system. The Committee deliberates on the principal policy issues facing the IMF.

The Committee has, at present, 24 members who are governors of the IMF, ministers, or others of comparable rank, and reflects the composition of the IMF Executive Board: each member country that appoints, and each group of countries that elects, an Executive Director appoints a member of the Committee. The Committee usually meets twice a year—in the spring and ahead of the Annual Meetings in the fall.

Press Release No. 98/46, October 2

Interim Committee

In a communiqué issued following its meeting on October 4, the Interim Committee, chaired by Italy's Minister of the Treasury Carlo Azeglio Ciampi, warned that "the outlook for the world economy has worsened considerably since the Committee's April meeting, with a scaling down of prospects for growth of output and trade....Recent problems have been aggravated by a general weakening of market confidence, reflecting the greater prevalence and intensity of contagion in an increasingly globalized economy." The Committee outlined a number of policy responses:

• In view of the seriousness of the situation, the Committee said it was crucial that "a strong cooperative effort be pursued by all countries and institutions to support those countries that have been most adversely affected by recent developments." It called for confidence-restoring policy measures to address both domestic and external sources of vulnerability.

• The Committee endorsed the overall strategy adopted by the international community to deal with the Asian crisis. It noted that the current stability in the affected countries' currencies would allow for a further cautious easing of monetary policies. It also supported the scope for fiscal policy to alleviate pressures on the real economy and to back countries' social safety nets and absorb the costs of bank restructuring.

• In the case of Russia, the Committee encouraged the government to act immediately to reestablish confidence in the ruble, restore the payments mechanism, and work with its creditors to develop a cooperative solution to the country's debts. It also stressed the need for vigorous action to tackle the root causes of the crisis, especially persistent fiscal imbalances and inadequacies in the taxation system and the banking sector.

• Other emerging market and developing countries should, in the Committee's view, persevere with sound policies to reduce their vulnerability to changes in investor sentiment. The Committee welcomed China's commitment not to devalue its currency, which had provided an important anchor to the region. In Latin America, it saw a need in some countries for fiscal consolidation and strengthening of financial systems.

• Turning to the industrial countries, the Committee welcomed the recent U.S. interest rate cut and also the convergence of interest rates in the countries participating in the euro. Should there be a worsening of the crisis or a further slowdown in economic activity, it cautioned, additional action on both domestic and international fronts would be required.

• The Committee agreed "to explore a strengthened capacity, based in the IMF and with the general increase in IMF quotas and establishment of the New Arrangements to Borrow, to provide more effectively contingent finance to help countries pursuing sound policies to maintain stability in the face of difficult global financial conditions."

Strengthening the Architecture

In what the Managing Director termed the most important area of strengthening the international financial system, the Interim Committee welcomed the progress that had been made, but noted that recent crises had exposed broader and deeper difficulties in the system. These, it said, underscored the need to widen the scope of recent work to encompass other aspects concerning the management and resolution of financial crises, and to review the institutional components of the system, including the possibility of strengthening or transforming the Interim Committee. It invited the IMF Executive Board to continue its work in these areas and, in particular, emphasized a number of points:

• *Standards.* Noting the urgent need to further develop internationally accepted norms as a means to raise the transparency of economic policy and enable financial markets to assess better borrowers' creditworthiness, the Committee welcomed the IMF's introduction of a code of conduct on fiscal transparency, as well as the ongoing work on the code of monetary and financial policies, and called on the Board to complete its work in this area urgently.

Reports on International Financial Architecture

IMF Managing Director Michel Camdessus presented a special report to the Interim Committee on Strengthening the Architecture of the International Monetary System. In the report he reviewed the progress that had been made in the IMF Executive Board in the five areas of developing standards, increasing transparency and accountability, strengthening financial systems, promoting the orderly integration of international financial markets, and involving the private sector in resolving and forestalling crises and in the work that would be necessary in the period ahead.

Following the April 1998 meeting in Washington of finance ministers and central bank governors from 22 economies (Group of 22) that examined issues relating to the strengthening of the international financial architecture, three working groups were established to study three key areas: enhancing transparency and accountability; strengthening national financial systems; and managing international financial crises. The reports of the working groups were sent to the Managing Director and to World Bank President James Wolfensohn with the request that they be forwarded through executive directors to the finance ministers and central bank governors meeting in the context of the annual meetings.

The texts of these reports have been published and are available on the IMF's website (http://www.imf.org).

• *Transparency.* The Committee observed that greater transparency and reporting by both the public and private sectors are critical for better functioning financial markets. It endorsed proposals to strengthen the IMF's Special Data Dissemination Standard and called for accelerating work on improving systems for reporting external debt. It recommended an analysis of the prudential and supervisory implications arising from the operations of international investors. In addition, it called on the IMF to strengthen the transparency of its own policies and policy advice through wider use of Public Information Notices (PINs), broader publication of members' Letters of Intent and Policy Framework Papers (PFPs), and more public information on, and evaluations of, IMF operations and policies.

• *Private Sector Contribution.* Recognizing the importance of greater private sector involvement in preventing and resolving financial crises, the Committee asked the IMF Executive Board to study further the use of market-based mechanisms to cope with the risk of sudden changes in investor sentiment leading to financial crises.

• *Capital Movements.* While noting that introducing or tightening capital controls is not appropriate in dealing with fundamental economic imbalances, the Committee noted that temporary impediments to capital movements have been used under certain circumstances. It asked the IMF's Executive Board to review experience with the use of controls and the circumstances under which they might be appropriate.

Other IMF Policies

• The Interim Committee expressed its serious concern over the IMF's tight liquidity position. It stressed the critical importance of augmenting IMF resources and urged all members to accelerate approval of the quota increase, to complete adherence to the New Arrangements to Borrow (NAB), and to accept the Fourth Amendment of the Articles of Agreement allowing for a special onetime equity allocation of SDRs.

• Concerning the Enhanced Structural Adjustment Facility (ESAF) and the Highly Indebted Poor Countries (HIPC) Initiative, the Committee strongly encouraged potentially eligible countries to start their adjustment programs as soon as possible and stressed the urgency of securing financing of ESAF and the HIPC Initiative and called on industrial countries that have not yet contributed to the ESAF Trust to do so without delay.

• Enhanced IMF-World Bank collaboration would maximize the effectiveness of the two institutions, the Committee said. It attached particular importance to stronger cooperation in helping countries strengthen financial systems.

• The third and final stage of EMU on January 1, 1999, would necessitate some changes in IMF operational procedures in the areas of surveillance and financing, the Committee observed. It called on the IMF to develop its surveillance activities in this area and complete its work to deal with the operational implications of the advent of EMU.

Development Committee

The Development Committee met on October 5, chaired by Tarrin Nimmanahaeminda, the Finance Minister of Thailand. In its communiqué, the Committee agreed that, beyond responding to the present crisis, concerted actions were needed to help countries bolster their structural and social policies and institutions. It encouraged the World Bank to work with the IMF and other institutions to develop general principles of good practice in structural and social policies.

In the area of IMF-World Bank collaboration, the Committee welcomed measures proposed in a joint report by the two institutions to improve operational mechanisms and the environment for collaboration, including information sharing. ■

New on the IMF Website

In connection with the 1998 Annual Meetings, an unprecedented amount of material has been made publicly available on the IMF's external website. This material includes

• statements made in the plenary sessions as they have been released and the texts of the communiqués of the Interim and Development Committees and the Group of 24.

• the full text of documents relating to the strengthening of the architecture of the international monetary system, including the report of the Managing Director to the Interim Committee and the three reports on the international financial architecture prepared for the Group of 22.

• transcripts of press briefings, including those on the Interim Committee and the Managing Director's press conferences, as well as the transcripts of the briefings on the *World Economic Outlook* and the architecture of the international monetary system, and of the Economic Forum on capital account liberalization.

• all press releases, public information notices (PINs), fact sheets on IMF policies and operations, and other materials, including comprehensive information on IMF financial accounts.

All this information may be accessed through the IMF's external website (http://www.imf.org).

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Managing Director's Opening Address

Higher Level of International Cooperation Needed To Tackle Crisis Facing Global Economic System

Following are edited excerpts of the opening address by IMF Managing Director Michel Camdessus to the Board of Governors of the IMF on October 6 in Washington, D.C. The complete text is available on the IMF's website (http://www.imf.org).

Governors, you have come this year in the midst of a crisis—a crisis that has already cost hundreds of billions of dollars, millions of jobs, and the unquantifiable tragedy of lost opportunities and lost hope for so many people, particularly among the poorest. This is a time for hard thinking, for recognizing errors, and for bold steps.

Where Do We Stand?

The IMF's most recent assessment is that, in the absence of any further major shocks, world output will expand by about 2 percent in 1998, just one-half of what we projected a year ago. Two key factors have aggravated the crisis that first emerged in Southeast Asia: the recession and financial system distress in Japan has intensified, and the abrupt deepening of the crisis in Russia has triggered a new wave of instability throughout the world.

No country has been immune. Even countries with well-managed economies have not been spared. We did not anticipate the strength of this virus, which has struck far and wide. What a powerful demonstration of the real vulnerability of emerging markets to abrupt changes in confidence, and the risks that arise when relatively small economies become the recipients of very large short-term flows!

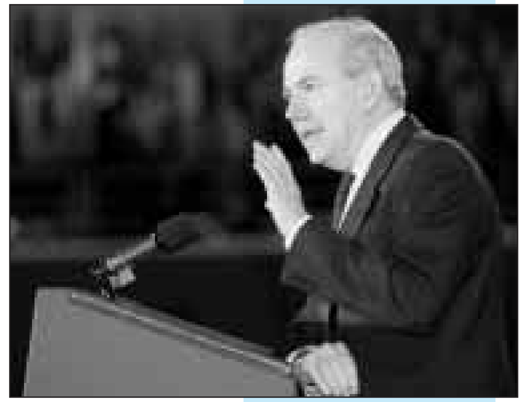
Evidence of the risks calls for immediate action. Recession on a global scale can be avoided. If we keep a steady nerve, if all countries pursue stability, structural adjustment, and orderly liberalization of their economies, this crisis can be overcome. Countries at the heart of the turmoil can emerge stronger and better prepared for the challenges of the next decade. But we must understand clearly what went wrong.

What Has Gone Wrong?

We are speaking not just of countries in crisis, but of a system in crisis—a system not yet sufficiently adapted to the opportunities and risks of globalization.

Let us turn first to Russia. In that country, an overall strategy for reform—supported by the international community for over seven years—had begun a fundamental transformation in the economy, the society, and the political system. But an appropriate strategy was not enough. In spite of the government's good intentions, too much was left undone, and support for reform was insufficient.

Now in our dialogue with the new government, we see that Russia will need to reestablish a sound path to recovery and to restore confidence greatly weakened by its unilateral debt restructuring. If Russia can begin again to help itself, and do so convincingly, assembling broad support for reform, the IMF will, of course, stand ready to help.



Camdessus: "This is a time for hard thinking, for recognizing errors, and for bold steps."

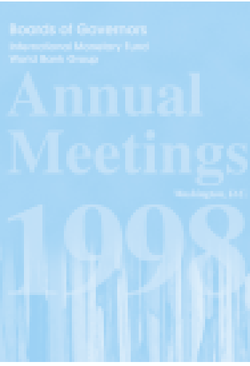
But earlier, in Asia, what went wrong after decades of remarkable performance? The crises were three-dimensional: macroeconomic imbalances, reflected in short-term capital outflows; acute financial sector problems, reflecting the absence of robust banking institutions and practices; and the economic culture, which allowed unduly close links among the state, the banks, and the corporate sector. This "managed development" was simply out of tune with the demands of a globalized economy.

To the three-dimensional problem we had to consider a triple response. In the macroeconomy and the financial sector, we were on more or less familiar ground. In the third, we faced newer challenges: lack of transparency, misgovernance, and corruption. Nonetheless, reforms are now being implemented. Some are having immediate positive effect; others that address deep-rooted problems will need more time to take hold.

In brief, to an unprecedented crisis, we had to bring unprecedented responses, and at times to enter stormy, uncharted waters. These were comprehensive programs put together in emergency situations. When needed, they have been adapted. And they are working. On a narrow definition of stabilization, the task is well advanced. But we know only too well about the sharp loss of output and heavy social costs that have accompanied these gains. Capital accounts have yet to turn around convincingly.

These countries need to press ahead resolutely with their full adjustment and reform programs, making sure that the poorest will benefit. The social costs have been high, too high, even if we have encouraged the authorities to make room for adequate social expenditure, relaxing fiscal targets as needed. And we applaud the initiative, spearheaded by the World Bank, to sharply increase the funding for social safety nets in countries undertaking painful reform.

But these programs will not suffice. A cooperative effort by the entire world community is needed to



repair the major shortcomings in the global system that this crisis has brought to light:

- the weak culture of transparency throughout the world that severely hampers sound policy, stable markets, and the efficiency of our surveillance;
- the weakness of financial systems;
- a piecemeal opening of capital accounts, which involved a largely unrestricted easing of potentially volatile, short-term flows, while nondebt inflows were submitted to legislative or bureaucratic restrictions—exactly the opposite of what should have happened;
- hesitation in defining modalities for involving private institutions in preventing and resolving crisis; and
- slowness in establishing practices, regulations, and institutions to address the rapid development of sophisticated global forms of financial intermediation.

To achieve sustainable high-quality growth and stability, we need a global trade and financial system that is open and well regulated, ensures access to the information necessary to differentiate risks, and can count on the international community to undertake firm surveillance ensuring the credibility and predictability of countries' policies. To extend the enormous progress of the last fifty years into the next half century, we need a new architecture for the international monetary system.

Key Features of a New Architecture

This new architecture must rest on five underlying principles elaborated in the Interim Committee communiqué:

Transparency. This is the golden rule. Ultimately, the effectiveness of this reform will hinge on how ready members and market participants are to adopt the standards for transparency and how well the IMF uses them in surveillance.

Strengthened Banking and Financial Systems. Strong frameworks for regulation and supervision must be put in place, supported by the worldwide adoption of consistent standards for accounting, auditing, insurance, securities, payments systems, and banking supervision. The IMF is strengthening its capability in this area by refocusing its bilateral and multilateral surveillance as well as its technical assistance and training. Together with the World Bank and other agencies, we must move forward rapidly in the context of a framework for financial stability.

Involvement of the Private Sector. Two objectives come to mind: first, establish the proper incentives to foster sustained private sector participation in global capital markets, minimizing the risk of sudden withdrawals; and, second, in realizing it, avoid moral hazard. We must work more on these issues.

Liberalization. The aim should be to progress cautiously and in an orderly fashion on our path toward a liberal system of capital movements set in the context of properly sequenced financial reform and of strong macroeconomic balances.

Modernizing the International Markets. To establish for all international financial operations the practices and discipline prevailing in the best working financial centers, we need consistent world standards in the monetary and financial areas of core concern to the IMF and in accounting, auditing, bankruptcy, and corporate governance, which are the concern of other agencies.

Will this be enough? Some may argue for the imposition of global rules or taxation, but I do not see a consensus materializing on such a basis. I suggest that our five elements provide the basis for a broad agreement to be assembled in a spirit of subsidiarity—acting at the world level is appropriate only when action at the national or regional level cannot suffice. National regulators must adopt all appropriate measures to reinforce their financial systems—not the least, addressing decisively the serious problem created by the lack of transparency and poor monitoring of hedge funds and of transactions in many offshore centers. These five elements can be constructed into the sound stable system that we all desire. But new challenges, even new crises, will emerge. To face them, we need to move to a higher level of international cooperation.

Path Out of Crisis

How do we progress from the present situation to a sounder world economy based on the new architecture? Everyone has a role.

First, the industrial countries clearly have a role as engines of global growth. The recent commitment by the G-7 finance ministers and governors to preserve or create conditions for sustainable domestic growth and financial stability was a welcome signal, but action and continued vigilance will be needed. Action is particularly urgent in Japan. Decisive moves by the authorities to promptly and resolutely repair the financial system, while continuing fiscal stimulus until the recovery is self-sustaining, will deserve the highest international encouragement and praise.

Second, the international community must provide effective support to the countries rebuilding themselves, provided they continue implementing the agreed programs with utmost determination. Each constituency must seriously consider if there is not something more to be done to ensure their success:

- Bankers and other private creditors, by speeding up private or public sector debt restructuring and, where needed, debt reduction; and by maintaining credit lines and commercial credit arrangements;
- Official bilateral creditors and donors, by extending support, where needed, particularly when pledged under second-line-of-defense arrangements or, more generally, by recognizing that bilateral support is vital for the IMF to be able to play its catalytic role. I particularly welcome the initiative announced by Japan in favor of Asian countries and the readiness expressed by Spain, with the

support of others in the European Union, to assist in the financing of IMF-supported programs in Latin America.

Third, countries fighting contagion should, above all, resist the temptation to undertake unilateral debt action, to adopt protectionist measures, or to force economic expansion by inflationary financing. They need to develop their capacity to anticipate difficulties and to respond quickly.

Such countries must be able to count on support from the IMF and the international community, as already is the case with some 75 countries that have IMF-supported programs or are negotiating them. The task of a number of them is so hard that the IMF may be called upon to broaden its present support. If needed, we must take new initiatives to this end.

This leads us to the fourth task: financing the IMF itself. In a world of rapid change, in a world where sudden market developments can destabilize even well-performing economies, the IMF needs adequate financing to perform its mandate fully. The quota increase is most urgent and should be finalized as soon as possible, together with the New Arrangements to Borrow, and the ratification of the SDR allocation approved last year.

The IMF also needs to receive, without further delay, sufficient resources to replenish the Enhanced Structural Adjustment Facility (ESAF). It is the sine qua non for our contribution to the HIPC Initiative, to postconflict situations, and to adjustment and reform programs in the poorest countries—particularly in Africa—to be commensurate with the task.

And fifth, in this search for a consensus on a path out of the crisis, our institutions must be adapted to this new world. This applies to the IMF itself. It has been said that you should not reform the fire brigade while fire is raging. I believe that at least we must start. It is a most valuable part of the culture of the IMF to be able to pursue internal reform even while continuing with our emergency work in all parts of the world. Of course, we will pursue our efforts continuously to improve our role in preventing and managing crises. We shall explore means to strengthen our capacity to provide support more efficiently—including in a precautionary way—to countries pursuing sound policies that face difficult global financial conditions. But we must go several steps further.

The IMF must be no exception in observing the golden rule of transparency. Let us, then, make further progress in opening many more of our operations for publication and external evaluation. A key remaining issue in attaining greater transparency lies in the degree of confidentiality required for maintaining a totally open dialogue with members. As soon as a consensus about these limits is reached, we will be ready to publish documents you still ask us to keep confidential.

Our legal instruments also need to be reappraised. I see two areas where the question of amending the Articles of Agreement arises. One is an amendment to make orderly capital account liberalization one of the purposes of the IMF and to extend the IMF's jurisdiction, as needed. On that we have already started our work. Another amendment is raised by a more specific aspect of the architecture—still a controversial one: the need to facilitate the orderly restructuring of distressed debt. I welcome the Executive Board's decision to come back to this issue.

We must pay close attention also to the frequently raised issue of political accountability. Whenever IMF-supported programs have an impact that goes beyond the strictly economic sphere, the legitimacy of our actions as a technical institution is questioned. But the issues go beyond accountability to the need for the authority to discharge adequately the responsibilities you entrust to us. I wish to reiterate here my full support for the French suggestion to consider transforming the Interim Committee into a "Council" with decision-making, rather than consultative, powers. This transformation could crown our efforts to establish a credible new architecture, by creating a body whose members are collectively responsible for key developments in the international monetary and financial system. It would significantly contribute to the new dimension of cooperation that is needed, by providing your representatives to the Council with a central forum from which to speak with full legitimacy, with full authority, and with a single voice.

Transformation of the Interim Committee could crown our efforts to establish a credible new architecture.

Lastly, two major developments suggest the need to revisit the modalities of the IMF's multilateral surveillance. The first—unveiled by the Asian crisis—is the extent of destabilizing movements in exchange markets. The second, as the euro develops into a key international currency, is the potential for cooperation among the monetary authorities of the multipolar system that is likely to develop in the years ahead.

I am confident that—narrow as it may be—there is a way out of the crisis. You can count on the IMF and on its competent and valiant staff to be steadfast in implementing your fundamental objectives of sound money, high-quality growth, protection of the poorest, and human development. You can count on the IMF to be prompt in adapting itself and ambitious for reforming itself. You can count on the IMF to stand by all its members in whatever difficult situation they may be.

But the IMF can only help those of its members who strive to save themselves. And we cannot do that alone. Let us join forces in completing the work we have just reviewed. With your support, under your guidance, the IMF you have placed at the center of the financial system will proudly continue to play its part of service. ■

Chairman's Opening Address

International Cooperation Is Vital to Overcome Human and Economic Crisis

Wolfgang Ruttenstorfer, Secretary of State in the Federal Ministry of Finance of Austria, opened the fifty-third Annual Meetings of the IMF and the World Bank, urging the international community to redouble its efforts to overcome the most serious global crisis in over a generation. The principles of the postwar international financial system—cooperation, democracy, predictability, and accountability—created a foundation that has served the world well. It is now essential to build on this foundation to strengthen and adapt the architecture of the international financial system.

European Economic Monetary Union

The international economic and financial system is evolving rapidly, with European economic and monetary union (EMU) slated to take effect in January 1999. EMU is expected to improve growth and employment prospects in Europe and have positive spillover effects for the world economy.

In keeping with the need to foster cooperation, the European Union (EU) is reaching out to the transition economies of central and eastern Europe. This process, Ruttenstorfer said, "marks a new quality of European integration." The IMF and the World Bank have supported the bold reform efforts of the transition economies and will continue to play a vital role in assisting their further integration into the world economy.

Ruttenstorfer: The whole international community should be more fully involved in preventing and resolving financial crises.

Benefits and Risks of Globalization

Integration into the world economy carries enormous potential for growth and prosperity. There is also the potential for destabilizing risks in countries unable to withstand the stress of its dynamic forces. Since the 1997 Annual Meetings, deep-seated problems have come to light in many countries. Even those with essentially sound policies have been affected by the current crisis, Ruttenstorfer observed.

To prevent and resolve such crises, it is not enough to rectify weaknesses in the countries themselves and for them to pursue sound domestic policies. Global problems, he stressed, need global answers. Therefore, a major challenge is to adapt the international financial system to better respond to the realities of today and the future challenges of globalization.

Architecture of the System

Work has progressed toward reinforcing the international monetary and financial system, although much more needs to be done. Countries must continue to enhance the availability and transparency of the information they provide, but, in addition, the supervision of financial systems must be strengthened. In this context, standards in banking supervision, data dissemination, fiscal transparency, monetary and financial policies, bankruptcy, corporate governance, and accounting play an important role.

Work has also moved forward to more fully involve the whole international community, including the private sector, in preventing and resolving financial crises. Ruttenstorfer called on the international community to identify creative ways to respond to acute short-term liquidity crises, particularly those generated by a generalized loss of market confidence rather than by economic policy failures in the countries concerned. Involving private creditors at an early stage, he stressed, can help achieve an equitable burden sharing vis-à-vis the official sector and limit moral hazard.

Greater capital mobility is here to stay, Ruttenstorfer observed, and countries must be made more resilient to possible shocks arising from volatile capital movements. Capital flows must therefore be liberalized in a prudent and properly sequenced manner to maximize the benefits—including access to technology and skills—and minimize the risks.

Assisting the Neediest Members

In the midst of this financial crisis, an ongoing human crisis has affected millions of lives. Because unemployment is on the rise and incomes have fallen, poverty, social unrest, crime, and violence have also increased. In the short term, Ruttenstorfer said, the poor must be protected against drastic declines in consumption, with measures designed to ensure food security and preserve purchasing power. In the long term, appropriate social safety nets will need to be created.

Globalization must not impede the development of the neediest countries, he warned. The international community must support their bold adjustment efforts. The Heavily Indebted Poor Countries (HIPC) Initiative has assisted seven countries. Ruttenstorfer urged the international community to continue this effort and to make progress in complementary assistance for countries emerging from conflict.

Resources

The international community has assigned a central role to the IMF and the Bank in the international financial system and in fostering sustainable development. But they need adequate resources to do their jobs. The quota increase must become effective as soon as possible. He stressed that all countries must do more to support these institutions and to ensure that they continue to play a central role in international economic cooperation. ■

The complete text is available on the IMF's website (http://www.imf.org).

Stand-By, EFF, and ESAF Arrangements as of September 30

Member	Date of Arrangement	Expiration Date	Amount Approved	Undrawn Balance
			(million SDRs)	
Stand-By Arrangements			**19,834.17**	**4,240.41**
Bosnia & Herzegovina	May 29, 1998	May 28, 1999	60.60	36.36
Cape Verde	February 20, 1998	April 19, 1999	2.10	2.10
Djibouti	April 15, 1996	March 31, 1999	8.25	2.93
El Salvador	September 23, 1998	February 22, 2000	37.68	37.68
Estonia	December 17, 1997	March 16, 1999	16.10	16.10
Korea[1]	December 4, 1997	December 3, 2000	15,500.00	2,175.00
Latvia	October 10, 1997	April 9, 1999	33.00	33.00
Philippines	April 1, 1998	March 31, 2000	1,020.79	1,020.79
Thailand	August 20, 1997	June 19, 2000	2,900.00	700.00
Uruguay	June 20, 1997	March 19, 1999	125.00	125.00
Zimbabwe	June 1, 1998	June 30, 1999	130.65	91.45
EFF Arrangements			**24,414.26**	**16,338.38**
Argentina	February 4, 1998	February 3, 2001	2,080.00	2,080.00
Azerbaijan	December 20, 1996	December 19, 1999	58.50	17.56
Bulgaria	September 25, 1998	September 24, 2001	627.62	575.32
Croatia, Republic of	March 12, 1997	March 11, 2000	353.16	324.38
Gabon	November 8, 1995	November 7, 1998	110.30	49.63
Indonesia	August 25, 1998	November 5, 2000	4,669.10	3,251.00
Jordan	February 9, 1996	February 8, 1999	238.04	35.52
Kazakhstan	July 17, 1996	July 16, 1999	309.40	309.40
Moldova	May 20, 1996	May 19, 1999	135.00	97.50
Pakistan	October 20, 1997	October 19, 2000	454.92	398.06
Panama	December 10, 1997	December 9, 2000	120.00	90.00
Peru	July 1, 1996	March 31, 1999	300.20	139.70
Russian Federation[1]	March 26, 1996	March 25, 2000	13,206.57	7,426.86
Ukraine	September 4, 1998	September 3, 2001	1,645.55	1,455.55
Yemen	October 29, 1997	October 28, 2000	105.90	87.90
ESAF Arrangements			**4,580.98**	**2,388.13**
Albania	May 13, 1998	May 12, 2001	35.30	29.42
Armenia	February 14, 1996	February 13, 1999	101.25	33.75
Azerbaijan	December 20, 1996	December 19, 1999	93.60	23.40
Benin	August 28, 1996	August 27, 1999	27.18	18.12
Bolivia	September 18, 1998	September 17, 2001	100.96	100.96
Burkina Faso	June 14, 1996	June 13, 1999	39.78	6.63
Cameroon	August 20, 1997	August 19, 2000	162.12	108.08
Central African Republic	July 20, 1998	July 19, 2001	49.44	41.20
Chad	September 1, 1995	April 28, 1999	49.56	8.26
Congo, Republic of	June 28, 1996	June 27, 1999	69.48	55.58
Côte d'Ivoire	March 17, 1998	March 16, 2001	285.84	202.47
Ethiopia	October 11, 1996	October 10, 1999	88.47	73.73
The Gambia	June 29, 1998	June 28, 2001	20.61	17.18
Georgia	February 28, 1996	February 27, 1999	166.50	27.75
Ghana	June 30, 1995	June 29, 1999	164.40	68.50
Guinea	January 13, 1997	January 12, 2000	70.80	35.40
Guyana	July 15, 1998	July 14, 2001	53.76	44.80
Haiti	October 18, 1996	October 17, 1999	91.05	75.88
Kenya	April 26, 1996	April 25, 1999	149.55	124.63
Kyrgyz Republic	June 26, 1998	June 25, 2001	64.50	53.75
Macedonia, FYR	April 11, 1997	April 10, 2000	54.56	27.28
Madagascar	November 27, 1996	November 26, 1999	81.36	54.24
Malawi	October 18, 1995	October 17, 1998	45.81	15.27
Mali	April 10, 1996	August 5, 1999	62.01	10.34
Mongolia	July 30, 1997	July 29, 2000	33.39	27.83
Mozambique	June 21, 1996	August 24, 1999	75.60	12.60
Nicaragua	March 18, 1998	March 17, 2001	100.91	84.09
Niger	June 12, 1996	September 1, 1999	57.96	9.66
Pakistan	October 20, 1997	October 19, 2000	682.38	454.92
Rwanda	June 24, 1998	June 23, 2001	71.40	59.50
Senegal	April 20, 1998	April 19, 2001	107.01	89.18
Tajikistan	June 24, 1998	June 23, 2001	96.00	78.00
Tanzania	November 8, 1996	November 7, 1999	161.59	38.76
Uganda	November 10, 1997	November 9, 2000	100.43	60.26
Yemen	October 29, 1997	October 28, 2000	264.75	176.75
Zambia	December 6, 1995	December 5, 1998	701.68	40.00
Total			**48,829.41**	**22,966.92**

[1]Includes amounts under Supplemental Reserve Facility.
EFF = Extended Fund Facility
ESAF = Enhanced Structural Adjustment Facility
Figures may not add to totals owing to rounding.
Data: IMF Treasurer's Department

Members drawing on the IMF "purchase" other members' currencies, or SDRs, with an equivalent amount of their own currency.

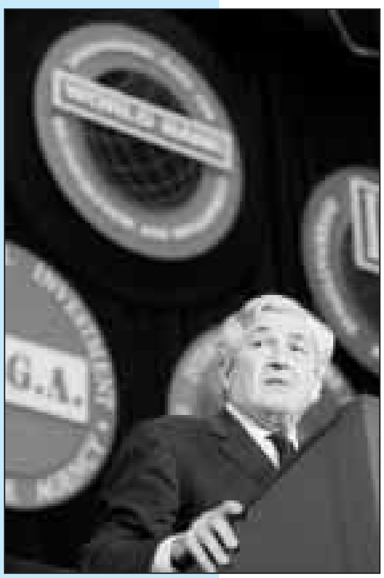
World Bank President's Opening Address

Wolfensohn Addresses Human Crisis; Seeks Solution Through Balanced Framework

*Following is a summary of the opening remarks by World Bank President James D. Wolfensohn on October 6 in Washington, D.C. The full text is available on the IMF's website (*http://*www.imf.org).*

In his address, Wolfensohn noted that the Annual Meetings were taking place in "the shadow of a global crisis," in circumstances very different from those in which last year's meetings were held. A little more than 12 months ago, developing countries as a whole were on a path toward strong growth. Although East Asia was stumbling, no one was predicting the extent of the region's fall. There was optimism about Russia, and South Asia seemed set to enjoy future years of 6 percent growth.

And then came a year of "turmoil and travail." Recalling the hopefulness he had felt in the past, Wolfensohn shared more recent memories of people who had lost hope. "We must address this human pain," he said.



Wolfensohn: "We must address this human pain."

What lessons can be learned from the experiences of the last 12 months? he asked. What can the World Bank do differently in the future to try to avoid such shifts in the economic and sociopolitical landscape? Wolfensohn stressed that countries should invest in education and health, put in place the macroeconomic fundamentals, and build modern communications and infrastructure. However, he pointed out, their development would be endangered if they did not have an effective financial system, adequate regulatory supervision and bankruptcy laws, effective competition and regulatory laws, transparency, and accounting standards. "Countries must have a policy of inclusion," he emphasized, because "it is the *totality* of change in a country that matters." The notion that development involves a balanced economic and social program is not revolutionary, but it is not the approach that the international community has been taking. Without a change of approach, it may be possible to build a new international financial architecture, but, Wolfensohn warned, it will be a house built on sand.

New Global Financial Architecture

This talk of a new global financial architecture reflects a growing sentiment that there is something wrong with a system in which even countries that have pursued strong economic policies are battered by international financial markets. In the more than fifty years since the establishment of the international economic institutions after World War II, the world has not experienced a major crisis. In that time, the institutions have evolved with the global economy. But the current crisis has exposed weaknesses and vulnerabilities that must be addressed. Wolfensohn, exhorting his listeners to "embrace the bold" and to unite in an effort to protect the common welfare by addressing issues of long-term equitable growth, offered a concept that could address these inadequacies.

In addition to the IMF's overall framework for evaluating countries' macroeconomic performance, Wolfensohn proposed a second framework that deals with progress in structural reforms necessary for long-term growth, human and social accounting, the environment, the status of women, rural development, indigenous people, and progress in infrastructure. The Bank, said Wolfensohn, is experimenting with such a framework, which is being developed by the clients with the help of the Bank. It should reflect balance—the financial, the institutional, and the social must be considered together—within a supportive and effective macroeconomic plan and open trade relations. The framework would

- outline the essentials of good governance—transparency, the free flow of information, a commitment to fight corruption, and a well-trained, properly remunerated civil service.
- specify the regulatory and institutional fundamentals essential to a workable market economy—a legal and tax system that guards against caprice, secures property rights, and ensures that contracts are enforced and that there is effective competition and orderly and efficient processes for resolving judicial disputes and bankruptcies, as well as a modern, transparent, and adequately supervised financial system.
- call for policies that foster inclusion—education for all, especially women and girls; health care; social protection for the unemployed, elderly, and people with disabilities; early childhood development; and mother and child clinics.
- describe the public services and infrastructure necessary for communications and transport.
- set forth objectives to ensure environmental and human sustainability—water, energy, and food security—issues that must also be dealt with at the global level.

Ownership and participation matter, Wolfensohn concluded. Countries and their governments must be in the driver's seat, and the people must be consulted and involved.

Ciampi, Camdessus Emphasize Need to Strengthen IMF Resources in Current Circumstances

*Following are edited excerpts from the joint press conference given by Carlo Azeglio Ciampi, Chairman of the Interim Committee, and Michel Camdessus, Managing Director of the IMF, on October 4 in Washington, D.C. The full transcript is available on the IMF's website (*http://www.imf.org*).*

Mr. Ciampi: The world economy has worsened since the Committee's April meeting. The downside risks to the current outlook have increased significantly, but the Committee noted some positive features, including continuing generally solid growth in the industrial countries of North America and Western Europe, the maintenance of growth in China and India, the strengthening in recent years of economic fundamentals and underlying growth performance in several developing and transition countries, and the fact that protectionist pressures have so far been kept in check. It is a unanimous view that forceful actions are required on the part of member countries over a broad range of policies.

The communiqué addresses the Russian financial crisis, with the encouragement of the Committee to the new government to take immediate measures to reestablish confidence in the ruble, restore the payment mechanism, and work with creditors to develop a cooperative solution to Russia's debts. The international community, including the international financial institutions, stands ready to support convincing and effective measures to stabilize and reform the Russian economy.

Another important point I want to stress is the reaffirmation of China's commitment not to devalue its currency, which has provided an important anchor to the region.

The press communiqué stresses the importance of the role that industrial countries have to play in sustaining global growth. It notes that Japan has to take prompt and resolute action to strengthen its banking system and to provide sufficient sustained fiscal stimulus to revive domestic demand and to restore confidence until the recovery is well established.

The communiqué discusses the strengthening of the architecture of the international monetary system. The roles of the various institutional components of the system, including the possibility for strengthening or transforming the Interim Committee, also need a thorough review. The communiqué also considers several relevant points: standards, transparency, the private sector's contribution, and capital movements, which is a very important paragraph. On other IMF policies and operations, the opening section states: "The Committee expressed serious concern over the IMF's tight liquidity position. It stressed the critical importance in current conditions of augmenting the IMF's resources and urged all members to accelerate the process leading to the implementation of the agreed quota increase. The Committee also called for the completion of countries' adherence to the New Arrangements to Borrow [NAB] and for the early acceptance of the Fourth Amendment of the Articles of Agreement allowing for the special onetime allocation of SDRs. These were viewed as indispensable actions in present circumstances."

Ciampi (right): Forceful actions are required.

Question: *What sense of urgency does the IMF attach to exploring the idea of a possible new contingent financing facility? And what are its modalities?*

Mr. Ciampi [interpreted]: Here and in relation to decisions taken yesterday in the Group of Seven meeting, we were invited to explore the possibility of providing further facilities that may become necessary. All countries believed that the IMF must be able to support the efforts of countries pursuing sound economic policies.

Question: *The IMF and this Committee last year clearly said that they wanted liberalization of the capital markets. This communiqué asks the Board "to review the experience with the use of controls on capital movements." What has changed and why?*

Mr. Ciampi [interpreted]: The position has not changed at all. We are in favor of the freedom of all capital movements, but freedom in capital markets also means that there should be discipline. There must be freedom of capital movements, but with compliance with a discipline and with rules that enhance transparency. With regard to the emerging countries moving toward liberalized capital markets, we think it is only right and proper that this move be gradual, sequenced, and associated with the capability of those countries to provide themselves with financial structures that are solid, appropriate, well-based, and particularly appropriate to their circumstances.

Mr. Camdessus: In Hong Kong, we adopted an important declaration that has established the doctrine of this institution. The key words of this declaration were "bold in vision; cautious in the implementation." Everybody today, as before in the Interim Committee, endorsed this stance. This very turbulent year has not led us to change this fundamental vision. As we are invited to continue with our work, we are also invited to take into consideration all the experience accumulated recently, and to review, in particular, the experience with the use of controls over capital movements. The full paragraph confirms the mandate we have and invites us to take stock of the rich experience we also have.

Question: *How confident are you about the possibility of Japan taking additional steps to achieve faster economic growth, enabling it to become an engine of the Asian economy in the reasonably near future?*

Mr. Ciampi [interpreted]: The Interim Committee believes that an upswing in the Japanese economy is absolutely of fundamental importance in regard to the situation in many of the countries in Asia. What we believe is that an upswing in Japanese business activity requires, above all, a strengthening of internal demand, of domestic demand. The fundamental point is improved domestic demand, which depends upon certain fiscal stimuli. An improvement in the Japanese position will also require an improvement in the Japanese banking system. But the key to the whole process for an improved Japanese economy is an upswing in domestic demand.

Question: *Have you had any indication from the Russian government that they are interested in getting, or willing to get, back to their reform program?*

Mr. Ciampi [interpreted]: The representative of Russia confirmed his government's intention to pursue the reform process. The Russian authorities have to deal with tremendous problems at the present—problems that involve the reconstruction of their whole tax system, which is fundamental to the country's performance. They know that they are facing a very difficult period, in regard particularly to the capacity to hold down inflation. But they have given clear confirmation that they are not going to return to the economic practices of the past.

Question: *What do you expect to have changed as far as creating a new financial architecture is concerned?*

Mr. Ciampi [interpreted]: There was a long discussion over lunch about strengthening the Interim Committee. The Interim Committee, as you recall, started in the middle of 1974. The idea was to set up a body that could provide guidance on the economic policies placed for discussion before the Board of Executive Directors. The Interim Committee came into being as a temporary instrument whose temporary status has now lasted for 24 years. Today, there was unanimous agreement to give greater strength to this body and to examine proposals that may lead to its transformation into a permanent body of the Fund.

Question: *IMF Chief Economist Michael Mussa said today that the IMF already has a package to help Brazil. He says that it is important that the package be announced very soon, and also that Brazil needs to speed up the crawling peg to 1 percent a month from ¾ of 1 percentage point a month at the present time. Can you confirm that the package for Brazil is already assembled?*

Mr. Camdessus: It is true that we discussed with Brazil what could be a package of measures we could support to help Brazil reinforce its defenses in a moment when Latin American countries are suffering the effects of contagion and of the crisis. We have been working with Brazil, examining a whole spectrum of measures that could be part of a package—working, as a matter of fact, on the basis of the medium-term policy stance defined by President Cardoso in a recent speech. But we have not yet received a formal request from Brazil. We continue our work until the moment this formal request is given to us. I could imagine that this could be done soon. I share the views of Mr. Mussa that it is certainly in the interest of Brazil to confirm rapidly its views and to allow the international community to finalize its own commitment.

With regard to the exchange rate, I am absolutely certain a program will confirm the present exchange rate regime, which has been successful in the context of the *real* program. Of course, there is the possibility of adapting the crawl—the possibility you mentioned, among others. But no decision at all exists in this domain, and we do not know if, at the end of the day, it will be seen as necessary to act in this domain. You must be a little bit patient and be careful to not read too much into what we say or seem to suggest here. This being said, I hope that we will very soon be in a position to clarify the state of our relations with Brazil.

Question: *Mr. Camdessus and Mr. Ciampi, will you favor allowing HIPC and ESAF countries, such as Bolivia, to adjust their agreed macroeconomic targets with the IMF to account for a continued worsening of the international economic situation?*

Mr. Camdessus: Contrary to some opinion, the IMF is a very flexible institution and very keen to adapt, when needed, its program to the circumstances of the country—particularly at a time of turbulence when the most solid forecast can be put in question by unexpected external shocks. In adapting the program, nevertheless, we will make sure that the country continues on track and that the strengthening of its financial credibility, of its creditworthiness, which is provided by this program, is, of course, maintained and, if possible, further strengthened.

IMF SURVEY

Countries Urged to Take Forceful Action to Restore Market Confidence and Growth

Following is the text of the communiqué issued after the October 4 meeting of the Interim Committee of the Board of Governors of the IMF.

The Interim Committee held its fifty-first meeting in Washington, D.C. on October 4, 1998 under the Chairmanship of Carlo Azeglio Ciampi, Minister of the Treasury of Italy. The Committee expressed its appreciation to the outgoing Chairman, Philippe Maystadt, former Deputy Prime Minister and Minister of Finance and Foreign Trade of Belgium, for his invaluable contribution to the Committee's work.

Developments in the World Economy

Problems and Challenges in the World Economy and International Capital Markets

The outlook for the world economy has worsened considerably since the Committee's April meeting, with a scaling down of prospects for growth of output and trade. Recessions in Japan and several Asian emerging market economies have deepened; Russia's financial crisis has contributed to a general retreat by investors from emerging markets; stock markets worldwide have declined significantly from their recent peaks; and commodity prices have weakened further. The downside risks to the current outlook have increased significantly. Many emerging market economies face a particularly difficult environment associated with reduced access to external financing and widening risk premia. These developments also pose difficulties for financial systems and an orderly process of economic adjustment and push back prospects for economic growth. Recent problems have been aggravated by a general weakening of market confidence, reflecting the greater prevalence and intensity of contagion in an increasingly globalized economy. These contagion effects were most evident in those countries with weak policies and inadequate institutions, but many countries with sound fundamentals have also not been spared.

The Committee also noted that there are some positive features that, if reinforced, can help carry forward the response to the crisis. First, there is continuing, generally solid, growth in the industrial countries of North America and Western Europe, amid low inflation and progress toward needed fiscal consolidation. Second, economic and monetary union in Europe, which is on the verge of being introduced, is already contributing to monetary stability. The Committee looks forward to a successful EMU [economic and monetary union], which contributes to growth and stability in the international monetary system. Third, there has been maintenance of growth in China and India, while progress in some of the Asian crisis countries toward financial stabilization and strengthened external positions has allowed the recent cautious easing of macroeconomic policies. Fourth, there has also been a considerable strengthening in recent years of economic fundamentals and underlying growth performance in several developing and transition countries, which has served to contain the crisis and limit the resort to market restrictions. Fifth, protectionist pressures have so far been kept in check.

At the Interim Committee meeting: (left to right) Liu Mingkang, Deputy Governor, People's Bank of China; Andrew Crockett, General Manger of the Bank for International Settlements; and Dai Xianglong, Governor of the People's Bank of China.

The Committee considered at length the challenges facing the world economy. It is its unanimous view that forceful action is required on the part of member countries over a broad range of policies, with the overriding aim of restoring market confidence and growth where needed.

Policy Responses to Recent Crises

In view of the seriousness of the present global situation, the Committee deemed it crucial that a strong cooperative effort be pursued by all countries and institutions to support those countries that have been most adversely affected by the recent developments and that are implementing strong economic adjustment programs. To contain the crisis, confidence-restoring policy measures are needed to address domestic and external sources of vulnerability; in particular, forceful and timely actions have to be taken in countries with deep-seated weaknesses.

The Committee reviewed and endorsed the overall strategy adopted by the international community in dealing with the Asian crisis. It noted that stability in the affected countries' currencies should, if maintained, allow for a further cautious easing of monetary policies. The Committee nonetheless remained concerned about the depth of the recession in many countries of Asia and its negative impact on the welfare of large sections of their population. It supported the scope provided for fiscal policy to alleviate pressures on the real economy and, in particular, to back countries' social safety nets and absorb the costs of bank restructuring. In order to secure the recovery of these economies, the Committee considered it essential that they continue to address forcefully the structural weaknesses in their financial and corporate sectors that lie at the heart of the recent loss of confidence and to develop effective mechanisms to facilitate debt workouts.

Regarding Russia's financial crisis, the Committee encouraged the new government to take immediate measures to reestablish confidence in the ruble, restore the payments mechanism, and work with its creditors to develop a cooperative solution to Russia's debts. It also emphasized the need for vigorous action to tackle the root causes of the crisis, especially the persistent fiscal imbalances and inadequacies in the taxation system and the banking sector, while strengthening the rule of law, market competition, and the private enterprise sector and also minimizing the social impact of the crisis. Members reaffirmed that the international community, including the international financial institutions, stands ready to support convincing and effective measures to stabilize and reform the Russian economy. The IMF should continue to fully support those countries most affected by the Russian crisis that are performing adequately under their adjustment programs.

At the Interim Committee meeting: (left to right) Antonio Casas Gonzalez, President, Banco Central de Venezuela; Manuel Guitián, Director of IMF's Monetary and Exchange Affairs Department; and Ismail Hassan Mohamed, Governor of the Central Bank of Egypt.

As for other emerging market and developing economies, with capital markets highly sensitive to any sign of policy deficiencies, it is essential that they persevere with sound policies to reduce vulnerability to changes in investor sentiment. The Committee noted that many countries in Asia and in other regions are dealing effectively with the spillover effects from the crisis. It also welcomed the reaffirmation of China's commitment not to devalue its currency, which has provided an important anchor to the region. In Latin America, while progress during the past decade in macroeconomic policies and structural reforms has enabled many countries to cope with the recent financial market turbulence, there still remains a strong need in some countries for fiscal consolidation and strengthening of financial systems.

The Committee stressed the importance of the role that the industrial countries have to play in sustaining global growth, containing deflationary risks, and creating environments conducive to a smooth resolution of financial crises. While noting the recent steps in this direction, the Committee considered it essential that Japan should take prompt and resolute action to strengthen its banking system and to provide sufficient and sustained stimulus to revive domestic demand and restore confidence until the recovery is well established. In most other industrial countries, growth is sufficiently robust for fiscal policy not to be diverted from medium-term objectives. In view of the favorable inflation and growth prospects in these countries and the seriousness of the global financial market crisis and its spillover effects, the Committee welcomed the recent interest rate cut in the United States as a useful step in this regard and the convergence of interest rates in the countries participating in the euro toward the lowest levels prevailing in the area. Should there be a worsening of the crisis or a further slowdown in economic activity, additional action on both domestic and international grounds would be required by both emerging market countries and industrial countries.

The Committee agreed to explore a strengthened capacity, based in the IMF and together with the general increase of IMF quotas and establishment of the New Arrangements to Borrow, to provide more effectively contingent finance to help countries pursuing sound policies to maintain stability in the face of difficult global financial conditions.

Strengthening the Architecture of the International Monetary System

The Committee welcomed the progress that has been made during the past six months in the work on aspects related to the strengthening of the architecture of the international monetary system. Recent crises have, however, exposed broader and deeper difficulties in the system, underscoring the need to widen the scope of recent work to encompass other crucial aspects with respect to the management and resolution of financial crises. These pertain, in particular, to mechanisms for the allocation of capital and for the management of risk, the regulation and supervision of financial sectors, and standards of transparency. The roles of the various institutional components of the system also need a thorough review, including the possibility for strengthening and/or transforming the Interim Committee. Members invited the Executive Board to develop its work in these directions and to report to the Committee at its next meeting.

On a number of points of great importance for the stability of the international financial system and the effective functioning of global capital markets, preparatory work is already well under way, and agreement around them is broad. Now is the time to follow up with concrete and rapid action. The following points were emphasized:

Standards

• There is an urgent need to further develop and disseminate internationally accepted norms as a means to raise the transparency of economic policy and to enable financial markets to better assess borrowers' creditworthiness, as well as standards as benchmarks for the assessment of good practices. Furthermore, appropriate means should be sought to encourage offshore financial centers to comply with such norms and standards. The Committee welcomed the introduction by the IMF of the code of conduct on fiscal transparency, as well as the ongoing work on the code of monetary and financial policies, and called on the Executive Board to complete its work in this area urgently. The Committee also noted the need for similar agreed codes and standards on corporate governance, accountancy, and insolvency regimes, and called on the IMF to collaborate closely with relevant international financial institutions and other standard-setting bodies in these areas of less direct operational concern to the IMF.

Transparency

• Greater transparency and reporting by both the public and private sectors are critical for better functioning financial markets. Comprehensive, frequent, and timely disclosure of countries' international reserve positions and external exposure is needed. Work must proceed expeditiously to improve the availability of data on reserves, external debt, and other capital flows, particularly short-term private flows. To this end, the Committee endorsed the current proposals to strengthen the Special Data Dissemination Standard and the agreement on a minimum standard for data provision to the IMF with respect to reserves and related items. The Committee urged the Interagency Task Force on Finance Statistics convened by the IMF to accelerate the work to improve the systems for reporting external debt, as a matter of priority.

• Greater transparency is also needed on the part of financial market participants and may require additional regulatory and disclosure measures. In that context, the Committee called for an in-depth analysis by concerned agencies of the prudential and supervisory implications arising from the operations of international institutional investors, including highly leveraged operations, with a view to determining whether additional disclosure requirements or regulations are appropriate to allow better public assessment of the risks involved.

Yashwant Sinha, Finance Minister of India.

• The IMF, for its part, is contributing to transparency through greater openness about its own policies and the advice it provides to members. These efforts should be strengthened through a wider use of Public Information Notices (PINs) (including on IMF policy decisions); the broader publication of Letters of Intent (LOIs) and Policy Framework Papers (PFPs) underpinning IMF-supported programs; and more public information on, and evaluations of, the IMF's operations and policies.

Private Sector Contribution

• Greater involvement of the private sector is also of critical importance in both preventing and resolving financial crises. The Committee recognized that the issues involved in this domain are complex. The IMF could build on the experience from the several cases, over the past nine months, in which member countries, creditors, and the IMF found practical approaches for rapid and effective action. In this regard, the Committee asked the Board to study further the use of market-based mechanisms to cope with the risk of sudden changes in investor sentiment leading to financial crises.

Capital Movements

• Introducing or tightening capital controls is not appropriate to deal effectively with fundamental economic imbalances. Any temporary breathing space such measures might bring would be outweighed by the long-term damage to investor confidence and the distortionary effects in resource allocation. These controls are no substitute for addressing at the source weaknesses in dealing with structural or macroeconomic imbalances. Temporary impediments to capital movements, however, have been utilized under certain circumstances, and in this regard, the Committee asked the Board to review the experience with the use of controls on capital movements and the circumstances under which such measures may be appropriate.

• As regards capital movements, the preconditions for a successful opening of national markets must be carefully ascertained and created. It is essential to prevent participation in global capital markets from becoming a channel or a source of financial instability (in the domestic economy), with the attendant risk of negative spillovers onto the rest of the world economy. The opening of the capital account must be carried out in an orderly, gradual, and well-sequenced manner, keeping its pace in line with the strengthening of countries' ability to sustain its consequences. The Committee underscored the crucial importance in this regard of solid domestic financial systems and of an effective prudential framework. To this end, the IMF was encouraged to continue its work, in the context of its surveillance activities and adjustment programs, to prompt countries to adopt adequate measures and to support these efforts, in close collaboration with the World Bank, through several means, including technical assistance and dissemination of standards.

IMF Support

• The Committee endorsed the Board's recent reaffirmation of the 1989 policy of lending into arrears and its agreement to consider extending this policy, under carefully designed conditions and on a case-by-case basis.

Computer Date Change

• In connection with these discussions, the Committee urged all countries to prepare expeditiously for a smooth transition to the year 2000 computer date change, and invited the IMF to contribute to raising awareness of the associated problem in the context of its surveillance and program activities.

The Committee requested the Executive Board to advance its work in all of these areas, in cooperation with other institutions and fora, and to report to the Committee at its next meeting.

Reports on Other IMF Policies And Operations

IMF Liquidity, Quotas, NAB, and SDR Amendment

The Committee expressed serious concern over the IMF's tight liquidity position. It stressed the critical importance in current conditions of augmenting the IMF's resources and urged all members to accelerate the process leading to the implementation of the agreed quota increase. The Committee also called for the completion of countries' adherence to the New Arrangements to Borrow and for the early acceptance of the Fourth Amendment of the Articles of Agreement allowing for the special onetime allocation of SDRs. These were viewed as indispensable actions in present circumstances.

ESAF and HIPC Initiative; Postconflict Assistance

• The Committee welcomed the progress made in the implementation of the HIPC Initiative, the extension by the Executive Board of the original two-year period for countries to begin qualifying for assistance until end-2000, as well as the Board's decision to add a degree of flexibility in its evaluation of track records of policy performance for countries receiving postconflict assistance. The Committee strongly encouraged potentially eligible countries to start the necessary program of adjustment as soon as possible as a prerequisite to benefit from the Initiative, so that every eligible country is in the process by the year 2000.

• The Committee stressed the urgency of securing the financing of the ESAF and the HIPC Initiative and requested the Executive Board to take the necessary decisions soon after the Annual Meetings. It called upon industrial countries that have not contributed to the ESAF-HIPC Trust Fund to come forward with their contributions without delay.

• The Committee supported proposals, based on the recent internal and external reviews of ESAF operations, to achieve better design and implementation of ESAF-supported programs. It regarded them as part of a continuing effort to adapt the IMF's strategy for the purpose of promoting growth and adjustment; in this context, it encouraged the deepening of the dialogue between the IMF and other relevant organizations.

• The Committee took note of the joint Bank-IMF report on assistance to postconflict countries and requested that the Executive Board consider the issues quickly and explore further viable proposals that recognize the special needs of poor postconflict countries, especially those with arrears to IFIs [international financial institutions].

Bank-IMF Collaboration

The Committee considered recent initiatives to strengthen collaboration between the Bank and the IMF. While recognizing the specific mandates of the two institutions, it stressed the importance of their working together, including in joint missions, to assist countries in implementing integrated stabilization and structural reform programs. Enhanced collaboration would maximize the effectiveness of the two institutions at a time of high demands on their resources. The Committee attached particular importance to stronger cooperation in helping countries strengthen financial systems.

EMU and the IMF—Operational Issues

The Committee welcomed the decision of the European Union (EU) that 11 EU members will move to the third and final stage of economic and monetary union (EMU) on January 1, 1999. EMU will necessitate some changes in the IMF's operational procedures, including those related both to surveillance and to the financing of the IMF. In light of the importance of the euro area, the IMF should develop its surveillance activities in this domain and complete its work to deal with the operational implications of the advent of EMU. In this context, the Committee underlined the importance of establishing an effective exchange of views with relevant EU institutions, especially the ECB [European Central Bank].

The next meeting of the Interim Committee will be held in Washington, D.C. and is provisionally scheduled for April 27, 1999. ■

Group of Seven Communiqué

Surveillance, Catalytic Financing Remain Key to IMF's Central Role in Crisis Prevention

Following are excerpts of the communiqué issued after the meeting of the Group of Seven (G-7) industrial countries on October 4 in Washington, D.C.

Developments in the World Economy

We discussed developments and prospects in our own economies and in the rest of the world. Financial market conditions have deteriorated in many parts of the world, leading to a further weakening of growth prospects, especially in most emerging market countries and also more generally. In this context, we reaffirmed our view that the balance of risks on a global basis has shifted. We agreed that, in today's integrated world economy and financial markets, developments in our economies, while being affected importantly by economic and financial developments elsewhere, have a significant impact on the rest of the world. More broadly, we reaffirmed the key importance going forward of each country in the global economy doing its part to promote recovery and financial stability. We must continue our efforts to strengthen the open world trading system, with free trade flows and open capital markets.

G-7 Economies

Inflation in the G-7 countries as a whole is low, and, in some countries, has declined further in recent months. Although growth so far has been sustained in our countries taken as a whole, the weakening in Asia and some other markets poses increasing downside risks to economic activity. We reemphasized our commitment to create or sustain conditions for strong domestic-demand-led growth and financial stability in each of our economies. In this context, we noted the importance of intensified cooperation among us at this juncture. We also agreed that the challenges that face each of our economies differ.

• In the United States, Canada, and the United Kingdom, where strong growth has been firmly established for some time, the task of policy is to take appropriate action to maintain conditions for sustainable growth.

• The continental European G-7 countries are expected to achieve stronger growth this year as their recoveries strengthen. It is important to preserve conditions conducive to robust domestic demand, implement urgent structural reforms, and reduce unemployment.

• Japan's economic challenges have intensified significantly in recent months, with three consecutive quarters of negative growth and continued weakness in the financial sector. Strong sustainable recovery in the economy is of critical importance to Japan, the Asia region, and the rest of the world. The Japanese authorities outlined their intention to strengthen confidence in the financial system by promptly establishing a framework of stimulus to boost domestic-demand-led growth. While noting the steps taken by the authorities to date, we stress the importance that we attach to swift and effective action to strengthen the financial system, including the prompt enactment of measures to support viable banks, with public assistance in sufficient amounts to be provided swiftly with appropriate conditions.

Group of Seven participants: (left to right) Gordon Brown, U.K. Chancellor of the Exchequer; Klaus Regling, Director General, European and International Financial Relations, German Ministry of Finance; Dominique Strauss-Kahn, French Minister of Economy, Finance, and Industry; Robert Rubin, U.S. Secretary of the Treasury; Carlo Azeglio Ciampi, Minister of the Treasury for Italy; Kiichi Miyazawa, Minister of Finance for Japan; and Paul Martin, Minister of Finance for Canada.

European Economic and Monetary Union

We discussed the ongoing smooth transition to economic and monetary union (EMU) in Europe on January 1, 1999, and looked forward to a successful EMU, which would contribute to growth and to stability in the international monetary system.

Russia

We met with representatives of the Russian Federation to discuss recent developments in Russia's economy and the difficult challenge the government faces in achieving financial restabilization. We agreed on the importance of monetary restraint and fiscal adjustment, noting the serious risk of inflation and further exchange rate weakening if revenue collections are inadequate and government expenditures are financed through central bank money creation. We emphasized the importance for Russia of undertaking comprehensive financial sector restructuring, which would close or merge insolvent banks, write down problem assets, and greatly enhance supervision. We also agreed that Russia must accelerate its program of structural reform to promote efficiency and growth in the real economy. We encouraged Russia to develop sound approaches and to pursue a constructive dialogue with the IMF on the urgent task of stabilization. We also stressed the great importance for Russia to pursue a cooperative dialogue with private creditors.

Emerging Market Economics

Policies countries pursue are a crucial determinant of their economic policies. We welcome the impressive efforts by a number of emerging market economies to strengthen their domestic policies in light of the financial market pressures that have spread over the last year. We reaffirmed the support expressed in our September 14 statement for exploring ways to reinforce the existing economic programs of economies facing financial crises, with accelerated efforts to promote comprehensive programs for corporate and financial sector restructuring and measures to alleviate the effects of the crises on the poorest segments of society, including, if necessary, through the provision of augmented financial assistance centered in the multilateral development banks.

We reaffirmed our concern about the extent of the general withdrawal of funds from emerging markets that had occurred without respect to the diversity of prospects facing those economies or to the significant progress that has been made in many economies in carrying out strong macroeconomic policies and structural reforms that enhance long-term growth prospects.

More broadly, we reiterate our support for the central role of the IMF in enhancing crisis prevention, including reforms through its surveillance process, as well as in providing catalytic financial assistance as needed to support appropriate policies and combat contagion. We emphasized that the private sector also has a key role to play in crisis resolution.

In this context, we urged the early implementation of the IMF quota increase and the New Arrangements to Borrow. We drew attention to the possibility, if circumstances so warrant, of activating the General Arrangements to Borrow, in consultation with other participants in the arrangements. We agreed to explore a strengthened capacity—based in the IMF and with the general increase of IMF quotas and establishment of the New Arrangements to Borrow—to provide more efficiently contingent financing to help countries pursuing sound policies to maintain stability in the face of difficult global financial conditions.

We stressed the critical role of the World Bank in crisis prevention through support for strong institutions, good governance, and structural reforms, particularly in the financial, corporate, and social sectors. We also underlined our support for an active role for the World Bank and other MDBs [multilateral development banks] responding to the crisis.

Debt

We also discussed the problems of the poorest countries. We endorse the need to sustain the momentum of the Heavily Indebted Poor Countries (HIPC) Initiative. We shall also encourage the IMF and the World Bank to move forward quickly on further proposals that recognize the special needs of poor postconflict countries, especially those with arrears to the international financial institutions.

Strengthening the International Financial System

Looking ahead, we agreed on the importance of adapting the IMF to ongoing changes in the world economy. This includes a focus on increasing its transparency, the design of appropriate reform programs, and effective use of IMF resources. We expect further progress in these areas in the near future.

We agreed on the need to build upon the work done to date and extend the reach of international discussions to ensure that the system is equipped to meet the challenges posed by the increasingly integrated global economy and financial markets. We committed to work together within the G-7, and with other industrial and key emerging market economies and with the international financial institutions, to develop approaches to strengthen the system in the following key areas:

• Promotion of soundly based capital flows, with better transparency and disclosure for all types of financial institutions and improved regulatory focus in industrial countries on risk management systems and prudential standards;

• Strengthening of existing institutions and bodies to ensure that they work more closely and cohesively together so as to seek to maintain on an ongoing and regular basis the integrity and stability of the international financial system;

• Strengthening of national financial systems, with measures to increase incentives for countries to act in this area, including stronger surveillance of financial sector supervisory and regulatory regimes, including the possibility of peer review and much closer cooperation and coherence between the various international institutions and groups involved in the financial sector. In this respect, we welcome the upcoming meeting of the banking surveillance authorities of the G-10 Basle group and of emerging economies in Sydney this month;

• Consideration of the elements required for sustainable exchange rate regimes in emerging market economies in the context of the global economy, backed by consistent macroeconomic policies;

• Development of effective mechanisms to involve the private sector in crisis management, with an appropriate financing role; and

• Other adaptations of the international architecture, including the possibility of strengthening the Interim and Development Committees. ■

Group of Ten Communiqué

Improved Crisis Prevention and Management Requires Private Sector Involvement

Following is the text of the communiqué issued after the October 4 meeting of the Group of Ten.

The Finance Ministers and Central Bank Governors of the Countries of the Group of Ten met in Washington on the fourth October 1998, under the Chairmanship of Gordon Brown, Chancellor of the Exchequer of the United Kingdom. They took note of reports from Mario Draghi, Chairman of the Deputies of the Group of Ten; Michel Camdessus, Managing Director of the IMF; Lawrence Summers, Chairman of Working Party III of the OECD [Organization for Economic Cooperation and Development]; and Andrew Crockett, General Manager of the BIS [Bank for International Settlements].

Ministers and Governors considered the topic of improved crisis prevention and management. They stressed the importance of the timely and substantive involvement of the private sector in the resolution of international financial crises. They noted the need for the disclosure of timely, comprehensive, and accurate information to promote the smooth and stable operation of markets and to increase the accountability of decision makers. In that context, they called for the release of comprehensive information on net foreign exchange reserves. They also called for further efforts to achieve rapid improvements in disclosure by the private sector. They reiterated the importance of efforts in both developed and emerging market economies to strengthen financial systems. In particular, they stressed the need to encourage better management of risk by the private sector. In order to reduce the risk of moral hazard and to facilitate the orderly resolution of crises that occur, they noted that governments should limit the scope of guarantees that they provide in their markets. They encouraged their Deputies to work together with others to make further improvements with respect to crisis prevention and management.

Gordon Brown (left), Chancellor of the Exchequer of the United Kingdom, with Alan Greenspan, Chairman of the U.S. Federal Reserve Board.

Ministers and Governors noted that the GAB [General Arrangements to Borrow] had been activated in the context of IMF support for Russia's economic program. They stressed that the IMF needed to have sufficient resources to remain capable of catalyzing policy reform and the restoration of market confidence. They urged that the necessary steps be taken to implement the agreed IMF quota increase and to put into place the New Arrangements to Borrow (NAB).

The Minister of Finance from Sweden, Erik Åsbrink, was elected Chairman of the Group of Ten for the coming year.

Development Committee Communiqué

Ministers Outlined Strategy to Restore Growth And Curb Poverty in East Asia

Following is the text of the Joint Ministerial Committee of the Boards of Governors of the Bank and the IMF on the Transfer of Real Resources to Developing Countries (Development Committee) communiqué, issued on October 5 in Washington, D.C.

The fifty-eighth meeting of the Development Committee was held in Washington, D.C. on October 5, 1998, under the chairmanship of Tarrin Nimmanahaeminda, Minister of Finance of Thailand.

Anwar Ibrahim. The Committee expressed its great appreciation to Anwar Ibrahim, who had served so ably as Chairman of the Committee.

Implications of the Asian Crisis. The Committee paid particular attention on this occasion to development priorities and the response of the World Bank Group.

Ministers recognized that the economic and social aftershocks of the crisis were more severe than earlier anticipated. The crisis had now spread beyond Indonesia, Korea, Thailand, and Malaysia, and its global ramifications had increased the vulnerability of all countries. Ministers therefore noted the need to support an early and sustained recovery in East Asia and contain the risks of crises elsewhere and to assist countries more generally to develop the prerequisites for sustainable economic growth in a more integrated international financial and economic system.

Ministers agreed that a concerted strategy for restoring sustainable growth and reversing the dramatic increase in poverty in East Asia should include the following key elements:

- maintaining and accelerating progress on structural reforms, including governance structures required for the efficient working of markets;
- restructuring the banking system and corporate sectors and, in the short term, restoring credit to viable businesses;
- mobilizing necessary resources to finance growth;
- regenerating demand; and
- protecting the environment.

Crucial to all these elements is a focus on social concerns and the need to mitigate the most harmful effects of the crisis on the poor.

Ministers further noted that, if it were allowed to continue, financial turmoil could result in major setbacks to the global economy and particularly to the progress most developing countries had achieved in the 1990s. The Committee agreed that actions were needed to help restore confidence and prevent contagion in the event of market pressures. Emerging market countries should strengthen their policies and institutions at an early stage to minimize their vulnerability to adverse shifts in investor sentiment. Industrial countries should take early and decisive actions to help regain or maintain growth momentum and global financial stability. All countries should continue the process of market opening and resist protectionism. All countries and the international financial institutions need to attach high priority to the promotion of good governance and the elimination of corruption.

Tarrin Nimmanahaeminda, Chairman of the Development Committee.

Ministers stressed that, given the magnitude of reversals in capital flows that East Asia and other regions had experienced, resumption of private flows was key to recovery. Ministers also emphasized the important catalytic role played by official flows from multilateral agencies and bilateral sources.

In this context, the Committee agreed that, beyond responding to the immediate crisis, and in parallel with ongoing efforts to improve the international financial architecture, concerted actions were needed to help countries bolster their structural and social policies and institutions. These include strengthening the financial sector; establishing a sound business environment; improving public and private sector governance, particularly transparency and accountability; and strengthening social protection. Ministers noted that the primary role of the World Bank was to help eliminate poverty and improve social well-being, in line with international development goals. They therefore encouraged the World Bank to work with the United Nations, the IMF, and and other partners to develop general principles of good practice in structural and social policies (including labor standards).

Bank Group Response. The Committee welcomed the prompt response of the Bank Group to the crisis, including the pledge of up to $17 billion in financing for affected countries in the region. Ministers expressed appreciation for the significant steps already taken by the Bank Group to assist countries to address the social consequences of the crisis, restructure their financial and corporate sectors, and strengthen structural reforms. They welcomed the Bank Group's intention to further enhance, within the Strategic Compact, its capacity (including through consideration of new instruments) to support member governments' structural and social development programs.

The Committee noted the decisions and recommendations recently made by the Executive Board related to the Bank's income dynamics. Given the increasing demands on the Bank's financial resources, Ministers asked the Executive Board to explore appropriate options to ensure that the Bank remains able to respond quickly and effectively to the development needs of its members. Ministers reaffirmed the fundamental importance of maintaining a financially strong Bank.

Bank-IMF Collaboration. The Committee noted the important roles to be played by the international financial institutions in meeting the range of new challenges facing the international community. In this context, the Committee expressed its appreciation for the major efforts undertaken by the IMF and the Bank to help countries deal with the crisis and its broad consequences. They stressed the importance they attached to effective coordination between the Bank and the IMF. Ministers noted the joint report from the IMF's Managing Director and the Bank's President, which set out the respective responsibilities of the two institutions and how each would support the macroeconomic policy and structural reform agendas of member governments. Ministers welcomed the proposed measures to improve operational mechanisms and the environment for collaboration, including information sharing, so as to enhance the institutions' capacity to serve member countries. Ministers requested that the Bank and IMF Executive Boards keep implementation of these actions, as well as the scope for further strengthening of collaboration, under review.

Ministers also encouraged the Executive Boards of the IMF and the Bank to review the roles of the Interim and Development Committees as part of the ongoing consideration of steps to strengthen the international financial architecture.

Partnerships. Ministers also welcomed the continued deepening of the partnerships between the World

Bank, the Asian and African Development Banks, and other multilateral and bilateral agencies in addressing the crisis and its longer-term impact. (Ministers looked forward to receiving, at the Committee's next meeting, the Bank President's report on progress achieved in strengthening World Bank cooperation with regional development banks.) Given the importance of trade for sustained recovery, Ministers urged the international financial institutions to intensify cooperation in the Integrated Framework for Trade-Related Technical Assistance for the Least Developed Countries. They also encouraged the World Bank to work closely with WTO [World Trade Organization], UNCTAD [United Nations Conference on Trade and Development], and other interested parties in building poor countries' capacity to prepare for a new global trade round. Ministers also urged enhanced cooperation between international financial institutions and the United Nations system at the country level.

Implementation of the Debt Initiative for Heavily Indebted Poor Countries (HIPC). Ministers were encouraged by the progress made during the Initiative's first two years. They noted that nine countries have so far reached the decision point, and total commitments to the seven requiring assistance under the Initiative amount to about $6.1 billion in nominal debt-service relief ($3.1 billion in NPV [net present value] terms). Ministers welcomed the fact that Bolivia had reached its completion point, based on continued strong policy performance; savings in nominal debt service were about $760 million (or about $450 million in NPV terms). The Committee also welcomed the recent agreement that Mali had reached its decision point and was expected to reach its completion point in December 1999.

Ministers expressed continued strong support for the Initiative. They endorsed the extension of the entry deadline, from September 1998 until end-2000, and the decision to add a degree of flexibility in its evaluation of track records of policy performance for countries receiving postconflict assistance. Ministers encouraged potentially eligible countries, including those emerging from conflict, to undertake the necessary Bank/IMF-supported programs as soon as possible so that by the year 2000 every eligible country is included in the Initiative. They also stressed the importance of additional contributions to the Initiative to assist all multilateral institutions to meet their share of the cost, including, in particular, the African Development Bank.

Before Development Committee meeting: (left to right) Carl-Dieter Spranger, Minister for Economic Cooperation and Development, Germany, and N'Goran Niamien, Minister of Economy and Finance, Côte d'Ivoire.

Ministers encouraged the establishment of closer ties between debt relief and support for poverty reduction as ways of making progress toward achievement of the international development targets. Ministers also supported the plan to carry out a comprehensive review of the Initiative, including an update of cost estimates, as early as 1999.

New Executive Directors Elected

Six new members of the IMF's Executive Board were elected by member countries during biennial elections held in Washington 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:

• **Alexandre Barro Chambrier** of Gabon: Benin, Burkina Faso, Cameroon, Cape Verde, Central African Republic, Chad, Comoros, Republic of Congo, Côte d'Ivoire, Djibouti, Equatorial Guinea, Gabon, Guinea, Guinea-Bissau, Madagascar, Mali, Mauritania, Mauritius, Niger, Rwanda, São Tomé and Príncipe, Senegal, and Togo;

• **Nicolas Eyzaguirre** of Chile: Argentina, Bolivia, Chile, Paraguay, Peru, and Uruguay;

• **Ricardo Faini** of Italy: Albania, Greece, Italy, Malta, Portugal, and San Marino;

• **Javier Guzman-Calafell** of Mexico: Costa Rica, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, Spain, and Venezuela;

• **Jose Pedro de Morais, Jr.**, of Angola: Angola, Botswana, Burundi, Eritrea, Ethiopia, The Gambia, Kenya, Lesotho, Liberia, Malawi, Mozambique, Namibia, Nigeria, Sierra Leone, South Africa, Swaziland, Tanzania, Uganda, Zambia, and Zimbabwe;

• **Murilo Portugal** of Brazil: Brazil, Colombia, Dominican Republic, Ecuador, Guyana, Haiti, Panama, Suriname, and Trinidad and Tobago.

The two-year terms of these Executive Directors, and those of the 13 Executive Directors reelected by their constituencies, begin November 1, 1998; 5 other Executive Directors are appointed by individual member countries—the United States, Germany, Japan, France, and the United Kingdom.

Assistance to Postconflict Countries. Ministers discussed the special problems faced by postconflict countries. They noted that a wide range of support had been provided these countries by the Bank and the IMF, along with the UN system and bilateral partners. Ministers encouraged them, within their respective mandates, to assist these countries with effective conflict prevention policies, thereby paving the way for a durable and successful postconflict resolution. Ministers recognized, however, that in a number of cases, especially those with large and protracted arrears to multilateral institutions, the international community should explore additional ways to provide assistance more quickly and effectively. In particular, Ministers emphasized the need to provide (and, where needed, increase) positive net transfers from official creditors to postconflict countries that are adopting sound economic and social policies. The Committee welcomed the initial work done by the Bank and the IMF in identifying the issues. Ministers recognized that providing additional assistance, especially from the international financial institutions, raised significant policy and resource issues, which would need to be considered more fully. Given the need to provide more effective support to postconflict countries, Ministers requested that the Bank and the IMF, in cooperation with the African Development Bank and other major creditors, develop an approach to guide assistance to these countries on a case-by-case basis, taking account of the specific capabilities of each institution. The Bank and the IMF were asked to report back to the Committee at its next meeting.

IMF and IDA [International Development Association] Resources. Ministers urged all members to implement the agreed IMF quota increase without delay to ensure that the IMF has adequate resources to meet the substantial additional demands placed upon it. Ministers also stressed the urgency of securing the financing of the ESAF [Enhanced Structural Adjustment Facility]. Moreover, given the vital need for concessional resources to sustain support for poverty reduction in poor countries, particularly in Africa, they urged IDA Deputies to reach a successful conclusion of IDA-12 negotiations before the end of 1998.

Executive Secretary. The Committee extended Alexander Shakow's term as Executive Secretary until October 1999.

Next Meeting. The Committee's next meeting is provisionally scheduled for April 28, 1999 in Washington, D.C. ■

The text of the communiqué of the Group of 24 will appear in the November 2 issue of the *IMF Survey*.

Recent IMF Publications

World Economic and Financial Surveys

International Capital Markets: Developments, Prospects, and Key Policy Issues, staff team led by Charles Adams and others ($25.00; academic rate: $20.00).

Staff Papers

Staff Papers, Vol. 45, No. 3 (September 1998) ($54.00 for four issues; $27.00: academic rate).

Occasional Papers ($18.00; academic rate: $15.00)

No. 169: *Financial Sector Development in Sub-Saharan African Countries*, Hassanali Mehran and others. Presents a broad picture of trends in financial sector reform in sub-Saharan Africa.

No. 170: *The West African Economic and Monetary Union: Recent Developments and Policy Issues*, staff team led by Ernesto Hernández-Catá. Focuses on major policy issues, including trade liberalization and increased private investment.

No. 172: *Capital Account Liberalization: Theoretical and Practical Aspects*, staff team led by Barry Eichengreen and Michael Mussa. Suggests that the dangers associated with free capital flows can be limited through sound macroeconomic and prudential policies.

IMF Staff Country Reports ($15.00)

98/73: Korea—Statistical Appendix
98/74: Korea—Selected Issues
98/75: Mauritius—Statistical Annex
98/76: Austria—Selected Issues and Statistical Appendix
98/77: Lao P.D.R.—Recent Economic Developments
98/78: Nigeria—Selected Issues and Statistical Appendix
98/79: Solomon Islands—Statistical Appendix
98/80: Trinidad and Tobago—Statistical Appendix
98/81: Turkmenistan—Recent Economic Developments
98/82: Former Yugoslav Republic of Macedonia—Recent Economic Developments
98/83: Azerbaijan Republic—Recent Economic Developments
98/84: Republic of Kazakhstan—Recent Economic Developments
98/85: Marshall Islands—Recent Economic Developments
98/97: Peru—Selected Issues

Economic Issues (free)

No. 15: *Inflation Targeting as a Framework for Monetary Policy*, Guy Debelle and others. Reviews experience of seven industrial countries with inflation targeting and considers its applicability to developing countries.

Publications are available from IMF Publication Services, Box XS800, IMF, Washington, DC 20431 U.S.A. Telephone: (202) 623-7430; fax: (202) 623-7201; e-mail: publications@imf.org.

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Managing Director's Closing Address

Global Response to Global Crisis—Elements of New Architecture Are Endorsed

Following are edited excerpts of IMF Managing Director Michel Camdessus's remarks at the Closing Joint Session of the Annual Meetings on October 8, in Washington, D.C. The full text is available on the IMF's website (http://www.imf.org).

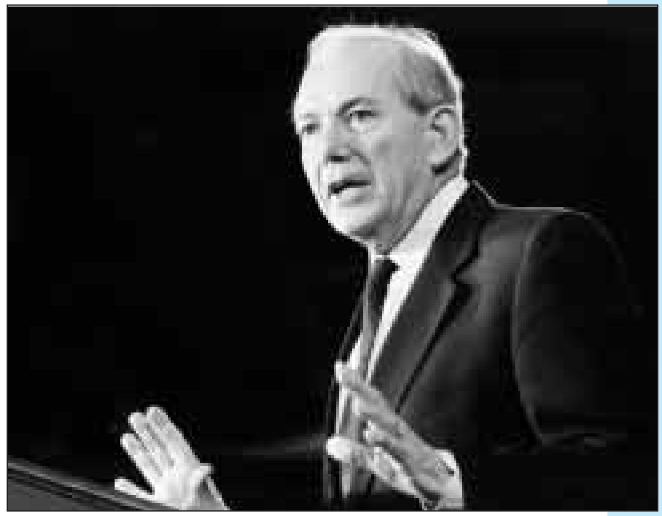
Over these past days, I have heard a common sense of disquiet about the global economic situation and the near-term prospects. This has given rise to a sober and substantive assessment of the causes of the crisis and of its global effects. We have undoubtedly moved a long way forward in identifying the steps needed to establish a more durable global economic system and in addressing the crisis.

It is clear that we face a systemic crisis. But Governors were determined to maintain a sense of perspective, recognizing that the globalized economy has brought enormous benefits and that this crisis, if properly addressed, could be seen in a longer-term perspective as just a temporary setback. President Clinton reminded us that "a truly global market economy has lifted the lives of billions of people." Of course, serious flaws have been revealed in the system and prompt decisive action is called for. But there is no desire to turn the clock back. Instead you demonstrated that you are ready to join forces to seek ways of making the global system more secure.

Some of our discussion has sought lessons from experience. You have observed that programs work only if governments want them to work. I was greatly encouraged therefore by the courageous statements by the Governors for Indonesia, Korea, and Thailand. I salute the valor of these countries that have borne the brunt of this crisis, and who are showing other countries that there is indeed a way out of crisis toward a future of more secure, higher-quality growth—growth which could lead, as the eloquent presentation of President Menem of Argentina demonstrated, also to a more equitable distribution of income.

Other legitimate questions have been raised by Governors about the size of the support, the policy content of the programs, their social and political effects, and moral hazard. We shall continue to assess these issues very carefully in the work that lies ahead. Many problems, as some of you have observed, stemmed from the approach of "managed development"—too close a link between banks, corporations, and the state. This has been a new demonstration that in a globalized economy, destabilizing factors can be generated quite outside the macroeconomic sphere and develop for some time before their negative effects can be recognized and denounced.

Governors were unanimous: a global crisis requires a global response. The architecture of the system needs to be strengthened, but not by direct intervention. The Chairman expressed it eloquently: "What is even more important than the architecture of a house is how the people inside behave toward each other and how they resolve conflicts. Here, we have good principles that have served us well over the past decades: cooperation, democratic principles, predictability, and accountability toward each other. We therefore need to build on this foundation to strengthen the architecture of the international financial system, adapting it to new challenges."



Camdessus: "the same principles that have served us so well nationally must now be extended to the international arena."

Defining the Architecture

This sets the tone: the same principles that have served us so well nationally must now be extended to the international arena. Thus, the five key elements of the new architecture are defined and endorsed: transparency, sound financial systems, involvement of the private sector, orderly liberalization, and internationally accepted standards and codes of good practice. All are elements of good governance. Your discussion of the new architecture has pointed to an ambitious work program in the months ahead, as outlined in the Interim Committee communiqué.

As the architecture is being designed, inevitably, the IMF is concentrating on the core issues of financial and macroeconomic policy. But we in the IMF are acutely aware that this crisis has profound developmental implications and social costs, as many Governors have reminded us. I agree entirely with Jim Wolfensohn's eloquent portrayal of the plight of the people in these countries, and I welcome warmly the World Bank's experimental framework for sustainable development. This is a natural and necessary complement to the work of the IMF that we will support in any way we can.

For our part, we can contribute to forming a firm basis for development in the low-income countries, as the Governor for Ethiopia reminded us, by bolstering our work in the ESAF [Enhanced Structural Adjustment Facility], the HIPC [Heavily Indebted Poor Countries] Initiative, and postconflict assistance. And needless to say, I am encouraged by the indications of support from contributors to the ESAF.

Shared Responsibility

Turning to the way out of the crisis, Governors were very clear that this was a shared responsibility. Many around the world looked to the economies of the industrial countries to provide continuing impetus to sustainable growth both at home and abroad. In particular, Governors encouraged Japan to take measures to promote economic recovery while repairing its financial system.

The countries in crisis, countries fighting contagion, and other developing economies around the world are showing an impressive and widespread determination to maintain and, where needed, strengthen their macroeconomic policies and adjustment programs. Governors supported our strategies to help them better withstand the worsening external environment. At the same time, they look to others in the international financial community—banks, other private creditors and investors, official creditors and donors—to play their part by maintaining their credit lines. Many Governors, recognizing the magnitude of problems for Russia in particular, and its policy shortcomings in the recent past, continue to be ready to support its efforts if Russia could embark again on a solid program for stabilization and reform.

Looking ahead to the historic birth of the euro, many around the world will look forward to its role, as the Governor for Germany put it, as "a major contribution by Europe to stability in the global economy and hence to ongoing economic recovery."

Many Governors, and I particularly, welcome such a longer-term view, considering that the threats of the present crisis should not detract our attention from countries fighting to implement a more traditional and no less demanding agenda for adjustment and reform, in order to bring their people out of deep poverty to a world of better opportunities, if not always for them, at least for their children. This is the essence of our commitment to Africa.

Role of the IMF

As for the role of the IMF, we have been heartened by the clear statements of support that you have given us. On the immediate issue of resources, I am now confident that we can expect quite soon to put behind us the issues of the quota increase, the NAB [New Arrangements to Borrow], and the equity SDR allocation.

You have strongly endorsed the IMF's resolve to apply the golden rule of transparency to itself. The external evaluation of the ESAF has set the stage for other such evaluations of our operations, and we are pressing ahead with an external evaluation of our central activity, surveillance. We shall work with our members more actively toward the more widespread dissemination of documents related to the IMF's surveillance and programs of financial support.

As requested by the Interim Committee, the Executive Board will thoroughly review the roles of the various institutional components of the international monetary system, including the need to strengthen and/or transform the Interim Committee to make it, as the Governor for Italy has said, "capable of effectively orienting the strategic choices of the IMF."

Many Governors have placed strong emphasis on Bank-IMF collaboration. We will certainly be looking at ways in which we can strengthen the already close collaboration between the Bank and the IMF, especially in the financial sector. Also in the months ahead we will be reviewing surveillance, carrying forward the amendment of our Articles for the purpose of capital liberalization. At the same time, we expect to continue assisting as many countries as needed against contagion and the consequences of this crisis.

In brief, I leave these meetings with three thoughts:

First, that in resolving the crisis, we must move to a higher level of international cooperation in striving urgently for effective solutions. Very good progress has been made in these meetings.

Second, that an extensive agenda for action awaits us in moving toward a more durable international monetary system. This week the tasks ahead have come into much clearer focus, including the need for adapting and strengthening the IMF itself.

Third, you have given us a strong sense of support for the role of the IMF and the Bretton Woods institutions in general, at the center of the international financial system. ■

Selected IMF Rates

Week Beginning	SDR Interest Rate	Rate of Remuneration	Rate of Charge
September 28	3.90	3.90	4.17
October 5	3.78	3.78	4.04
October 12	3.57	3.57	3.82

The SDR interest rate and the rate of remuneration are equal to a weighted average of interest rates on specified short-term domestic obligations in the money markets of the five countries whose currencies constitute the SDR valuation basket (the U.S. dollar, weighted 39 percent; deutsche mark, 21 percent; Japanese yen, 18 percent; French franc, 11 percent; and U.K. pound, 11 percent). The rate of remuneration is the rate of return on members' remunerated reserve tranche positions. The rate of charge, a proportion (currently 107 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 (http://www.imf.org/external/np/tre/sdr/sdr.htm).

Data: IMF Treasurer's Department

Managing Director's Closing Press Conference

Agreement Achieved on Key Tenets of Efforts to Fight Contagion, Adapt Financial Architecture

Following are edited excerpts of IMF Managing Director Michel Camdessus's closing press conference on October 8 in Washington, D.C. The full transcript is available on the IMF's website (http://www.imf.org).

Let me emphasize two or three points that strike me. You have here 182 countries in a global crisis, but going together with an extraordinary sense of cohesion, seeking consensus and agreeing forcefully on what is our basic approach, endorsing what we are doing, reinforcing us in what they call our unique and central role. I am not too surprised by that, as this cohesion is illustrated by the fact that all these programs in Asia and all that we are doing in Latin America and other parts of the world have been continuously and unanimously supported by our 24 Executive Directors. Still, it is heartening that, after almost a full week of soul searching, analysis of the causes, and forward-looking reflections on what should be done, you have such an agreement. This is an important point regarding the handling of the crisis.

You have the same kind of cohesion and consensus on how to go forward and how to tackle the architecture problems. The five principles we have suggested as the basic avenues for progress have been very strongly endorsed. It is for us quite heartening to be able to go ahead on two fronts: the daily battles of continuing to fight contagion and to help countries in difficulties, and the longer-term issue of recasting the structure of the international financial system—urgently, of course, but with thoughtfulness—and working in cooperation with all institutions that are with us in these endeavors.

QUESTION [interpreted]: *On the new architecture, could you be a little more specific about the future, because we are dealing with different possibilities as to what this architecture will be in countries that oppose a broader role of the international institutions. Are you going to really act in support of the program of President Clinton of a contingency fund to forestall crisis?*

MR. CAMDESSUS [interpreted]: On the architecture, what was important to me was the strong agreement on the five basic approaches that are reflected in my Annual Meetings speech. What remains to be done is a monumental task, be it in regard to transparency; consolidation of banking supervision; the orderly, cautious progression toward the liberalization of capital movements; or the partnership with the private sector.

Regarding President Clinton's suggestion that we examine a preventive, precautionary facility in the IMF, I spoke to the U.S. authorities before the event and said this was a positive approach, particularly well adapted to helping countries to be prepared for the shocks to come. This is the philosophy of President Clinton. He has shown this through his courageous combat on behalf of our quotas.

QUESTION [interpreted]: *Have you and the different groups—G-7, G-10, G-22—reached a concrete conclusion as to how to emerge from the crisis?*

MR. CAMDESSUS [interpreted]: There is agreement on how we can emerge from this crisis. First of all, everybody has to contribute. Everyone must pay up, starting with the most powerful countries, which are in relatively good shape at the present time, with the exception of Japan. So the strongest economies have to contribute. The G-7 recognizes that today the danger is not inflation, but slow demand. So growth must be sustained and supported. Japan has also told us it will do its very best to address the problem.

Camdessus: "We are dealing with a monumental task."

Second, very strong support for what we are doing to assist countries caught up in the crisis to deal with their problems. There is a certain agreement on the requests I have made to all the bankers, creditors, and bilateral donors to cooperate with additional financing if required to bolster the action of these countries.

Third, agreement—illustrated by the proposal made by President Clinton—to assist countries not yet buffeted by crisis but suffering from contagion effects to allow them to strengthen their position, provided, of course, that they take the necessary action to strengthen their own positions. It is comparable to preparing for a hurricane. Whatever the goodwill of your friends, if you have not nailed down your windows and doors, you are going to be struck by the hurricane.

We are being encouraged to invent the means and to be proactive in supporting those countries preparing for whatever may transpire. We have gotten a great deal of support and, indeed, compliments on our work in heightening regional surveillance. We began this with the Latin American countries this autumn so that they can have a combined strategy to deal with possible contagion and help the markets distinguish between those doing nothing, those doing a bit, and those doing their utmost to be strong in the face of circumstances.

We, the World Bank, and the regional banks have to be at the heart of this defense structure. Hence, the fourth prong of this strategy is to bolster and strengthen our institutions through the quota increase for the IMF, the New Arrangements to Borrow, and—the most difficult of all—the strengthening of the Enhanced Structural Adjustment Facility, which is vital for the poor countries. We also want to provide assistance through the Heavily Indebted Poor Countries (HIPC) Initiative and provide assistance for postconflict countries. We also, on an abiding basis, have to adjust to changing circumstances and go on with our internal reform activity.

Question: *Should we assume that when Brazilian President Cardoso announces the medium-term policies that the IMF's response will be a very quick one? Could you tell us something about the structure of the support? Will it include some preventive aspects, along the lines that President Clinton mentioned? And what makes you think, given the current environment of risk aversion, that this would encourage private investors to move back to emerging markets, to move back to Brazil?*

Mr. Camdessus: We are very familiar with the Brazilian situation, as Brazil is a country that values very much the technical assessment of the IMF and has been continuously, from the outset of the crisis in Asia, working with our staff. We are familiar with the situation and can react promptly to their requests. But we do not want to speak or advance solutions before seeing that the solutions are owned by Brazil, its government, and its people. What I like in this case is that we are here starting disclosing the real situation in which we are—after President Cardoso has, on a first occasion, given the broad philosophy of his program and is now continuously following the progress of the work of his government—advancing more the details of the program. We will react as soon as we have a formal, full-fledged program in hand.

I would not be surprised if the Brazilians were to give a precautionary character to our support or at least to a significant part of it, because the situation of Brazil is not one where there is a major gap that could not be solved except by a strong and immediate injection of resources. This is a country that is trying to protect itself against the hurricane. If this strategy works as we expect, part of the financing we could pledge could be of a purely precautionary character. But we are not yet in a position to say. We will see only ex post what will be precautionary and what will be effectively committed or disbursed.

Will the private sector feel encouraged in the present atmosphere to maintain its support to Brazil, or even to amplify it? We will see, but in the case of Brazil, the incentives for it to do that are very strong—because the program is strong, the country is strong, and their interests in the country are strong. They have here a golden opportunity to demonstrate that they are committed to Brazil and that they are confident about the medium-term and longer-term perspective of this great country.

Question: *We have heard much about architecture and architects when perhaps what this world needs is a very strong project manager. Under your stewardship, there has been a crisis in confidence. We have seen governments from Russia to Malaysia reject the IMF's offers of assistance. The financial markets and the U.S. Congress, among others, are now calling for change. Have you yet considered stepping down so that new leadership could emerge to take over the IMF?*

Mr. Camdessus: I have been frequently invited to step down by, of course, very good friends of mine. Journalists have also sometimes suggested that it was time to move. I remember, in particular, a night press conference in Madrid where some of your colleagues were very eloquent in their suggestions. What I can tell you to reassure you and all those you are speaking for is that certainly the day will come when I will step down.

Question: *Could you explain why you feel so much more optimistic coming out of these meetings than a lot of people whom we have been quoting?*

Mr. Camdessus: Look, very sincerely, I believe nothing could have happened at the meetings more than what has happened. I know the expectations were extremely high, but what has not been fully perceived is that we are dealing with a monumental task. What we wanted to achieve was an agreement on the key tenets of the program and to have everybody on board for that, including on the most delicate aspects of it. This consensus is there. Now we must go to the implementation.

Question: *Mr. Wolfensohn spoke a great deal about the need for a social net. Does the IMF need to be more preoccupied with the social impact of its programs?*

Mr. Camdessus: The World Bank and the IMF are two different institutions, with two very different mandates, inspired by the same ultimate concern—the prosperity of the world and the progress of living standards of all and, in particular, even if it is not put that way in our Articles of Agreement, of the poorest. But we serve this common purpose through the different vocations. The World Bank finances development, particularly sectoral and social issues. Social safety nets and the alleviation of poverty are at the heart of the mission of the World Bank.

The IMF serves the same purpose through different channels. In the case of Brazil, nothing can be more important from a social perspective than what the IMF has done to help the Brazilians escape hyperinflation and bring an advanced degree of price stability. After two years of the *real* plan, 10 percent of the Brazilian population has been able to cross the poverty line. It is a remarkable achievement, done not through social safety nets but through an effective policy of disinflation. This is where the IMF must chiefly concentrate. But we must also help the countries, together with the World Bank, to see how utilizing the scarce resources of the public sector and of the budget—how by concentrating them on the basic tasks of education, health, and rural development—you can bring more equity in distribution.

Brazil is one of the countries of the world, certainly in Latin America, where the distribution of income is less equitable. I hope that, thanks to this strengthening of the fiscal basis of the country, Brazil will be in a much better position to go ahead with major progress toward more equity in the distribution of income, as we have seen Argentina doing, and as was very graphically explained in the speech of President Menem to the Annual Meetings.

QUESTION: *A couple of events over the last two days—Mr. Greenspan's speech, which indicated U.S. monetary policy might be eased further and the possibility of compromise in Japan leading to a bank reform bill—have caused financial markets to abandon what little bit of decorum they still retained. Could you comment on those two specific events and give us your reading of why the markets are doing what they are doing?*

MR. CAMDESSUS: We are in a crisis; we are in a situation where rationality is not the most obvious feature of market behavior. Alan Greenspan had a very striking experience of that when announcing the best of possible things—namely, a readiness to move with diligence, if the need arises, toward easing liquidity and lowering interest rates further. He had a reaction that was truly the opposite of what he could have expected, as the market interpreted him as signaling that he could be more concerned than his very words were suggesting.

Regarding developments in Japan, good news apparently prompted an extremely vivacious reaction of the exchange market, with the yen suddenly going upward in what seems to me a somewhat disorderly manner to, at this stage, an inappropriate level. An appreciation of the yen is something we must expect in a medium-term perspective if progress in the Japanese economy materializes, but what is occurring in the present days is too much of something that could be good in a medium-term perspective. ■

From the Executive Board

Following are excerpts of recent IMF press releases. Full texts are available on the IMF's website (http://www.imf.org) under "news" or on request from the IMF's Public Affairs Division (fax: (202) 623-6278).

El Salvador: Stand-By Credit

The IMF approved a 17-month stand-by credit for El Salvador in an amount equivalent to SDR 37.7 million (about $52 million), to support the government's 1998–99 economic program. The government of El Salvador said it intends to treat the credit as precautionary.

El Salvador: Selected Economic Indicators

	1996	Revised 1997	1998 Program	1998 Revised Program	Program 1999
	(annual percent changes)				
Real GDP	1.8	4.0	4.0	4.0	4.5
Consumer prices (end of year)	7.4	2.0	3.5	3.5	3.0
Overall fiscal balance (after grants)	–2.5	–1.7	–3.0	–2.7	–2.5
External current account balance	–1.6	0.9	–1.9	–1.1	–0.9
Excluding official transfers	–2.2	0.4	–2.2	–1.4	–1.2
	(months of imports)				
Gross official reserves	4.9	5.9	7.0	6.9	7.0

Data: El Salvador's Central Reserve Bank and Ministry of FInance, and IMF staff estimates

Program for 1998–99

The authorities' program for 1998–99 aims at maintaining sustainable high rates of growth, while containing inflation to that of its trading partners, in the context of a fixed exchange rate. The program aims at a rate of growth of GDP of 4 percent in 1998 and 4.5 percent in 1999, which is predicated on the assumption that the turmoil in international markets does not have a significant adverse effect on El Salvador's exports or investment in 1999. Inflation is expected to be contained at about 3.5 percent in 1998 and 3 percent in 1999, and net international reserves are expected to increase to the equivalent of seven months of imports.

The fiscal program envisages a widening of the overall deficit (after grants) of the nonfinancial public sector from about 2 percent of GDP in 1997 to less than 3 percent of GDP a year in 1998–99.

Structural Reforms

Following significant progress in structural reforms earlier in 1998, the program envisages further reform of the public sector and the pension system, privatization of the sugar mill and of the Mortgage Bank, a strengthening of bank supervision and prudential regulations, an improvement in monetary policy instruments, and a lowering of import tariffs.

Addressing Social Needs

The program supports partial use of the privatization proceeds to provide a permanent source of revenue for expanded and improved social expenditure. In addition, lending programs for El Salvador approved by the Inter-American Development Bank and the World Bank include expenditures on a health sector reform program, a water and sewer program and sector reform, the rehabilitation and construction of schools, and primary and secondary education projects.

El Salvador joined the IMF on March 14, 1946; its quota is SDR 125.6 million (about $172 million); it has no outstanding use of IMF credit.

Press Release No. 98/43, September 24

Bulgaria: Extended Fund Facility

The IMF approved a three-year credit for Bulgaria equivalent to SDR 627.6 million (about $864 million at the current exchange rate) under the Extended Fund Facility (EFF), to support the government's medium-term economic reform program for July 1998–June 2001. Of the total, the equivalent of SDR 52.3 million (about $72 million) is available immediately.

Bulgaria: Selected Economic Indicators

	1994	1995	1996	1997	1998[1]
			(percent change)		
Real GDP	1.8	2.1	–10.9	–6.9	5.0
Consumer price index (end of period)	121.9	32.9	310.8	578.5	9.0
			(percent of GDP)		
General government balance	–5.8	–6.3	–12.7	–2.5	0.0
General government primary balance	3.9	6.5	6.4	5.7	4.3
Current account	–1.6	–0.2	0.8	4.3	–0.7
			(months of imports)		
Reserve cover	3.0	2.9	1.6	5.2	6.3

[1]Projection.
Data: Bulgarian authorities and IMF staff projections

Medium-Term Program

Bulgaria's medium-term economic adjustment and reform program aims to achieve strong economic growth, higher living standards, and external viability on a sustainable basis while substantially advancing the transition to a competitive market economy and addressing critical social and infrastructure needs.

The authorities intend to maintain an underlying fiscal stance of a broadly balanced budget over the medium term, with allowance for an actual deficit of up to 2 percent of GDP during 1999–2001 to cover the transitional costs of structural reform and higher public investment in infrastructure.

The medium-term program targets strong growth, at 4 to 5 percent a year, a decline in inflation to about 5 percent a year by 2001, and a substantial decline in the public and external debt burden. The external current account deficit will be kept in the range of 3 percent of GDP—a level considered sustainable based on conservative assumptions about inflows of foreign direct investment.

Structural Reforms

One of the key elements of the medium-term program is the rapid privatization of state-owned banks and enterprises. This policy will be supplemented by additional measures to harden budget constraints. An appropriate regulatory framework for financial markets is being established, while the banking system is further developed and banking supervision strengthened.

Other structural reforms aim to improve resource allocation by addressing major inefficiencies in the energy and agriculture sectors, liberalizing trade, and deregulating economic activity.

Addressing Social Needs

The main objectives of Bulgaria's social protection reform strategy are to improve targeting and provision of services; reduce disincentives to employment in the formal sector by reducing payroll taxes while ensuring the fiscal sustainability of the social insurance system; and improve administrative efficiency by consolidating overlapping social protection programs.

Bulgaria joined the IMF on September 25, 1990; its quota is SDR 464.9 million (about $640 million); its outstanding use of IMF credit currently totals SDR 714 million (about $983 million).

Press Release No. 98/44, September 28

IMF to Incorporate Euro into SDR Basket After Launch of EMU

The IMF has decided that, after the launch of the economic and monetary union in Europe (EMU) on January 1, 1999, the euro will replace the current currency amounts of the deutsche mark and the French franc in the SDR valuation basket, which also includes the currencies of Japan, the United Kingdom, and the United States. The specific amounts of euros in the valuation basket, which will replace the deutsche mark and the French franc, respectively, will be announced by the IMF promptly following the announcement of the conversion rates between the euro and the deutsche mark and the French franc by the European Council. The financial instruments in the SDR interest rate basket—the market yield of three-month treasury bills for France, the United Kingdom, and the United States, the three-month interbank deposit rate for Germany, and the three-month rate on certificates of deposit in Japan—will remain unchanged, although the French and German instruments will be expressed in euros. In line with the currently effective decision on the SDR valuation and interest rate baskets, the next revision of the SDR will take place not later than 2000, with any changes to take effect on January 1, 2001.

Further information on the SDR, its definition, valuation, interest rate, and exchange rates can be found on the IMF's Internet website (www.imf.org) under Fund Rates.

Press Release No. 98/45, September 30

Members' Use of IMF Credit
(million SDR)

	Sept. 1998	Jan.–Sept. 1998	Jan.–Sept. 1997
General Resources Account	**1,510.60**	**14,079.77**	**4,833.03**
Stand-By Arrangements	575.00	7,232.74	2,060.65
Supplemental Reserve Facility	475.00	5,125.00	0.00
EFF Arrangements	935.60	4,690.48	2,664.78
Supplemental Reserve Facility	0.00	675.02	0.00
CCFF	0.00	2,156.55	107.60
SAF and ESAF Arrangements	**72.89**	**653.39**	**423.06**
Total	**1,583.49**	**14,733.16**	**5,256.09**

Note: EFF = Extended Fund Facility
CCFF = Compensatory and Contingency Financing Facility
SAF = Structural Adjustment Facility
ESAF = Enhanced Structural Adjustment Facility
Figures may not add to totals shown owing to rounding.

Data: IMF Treasurer's Department

Bolivia: HIPC

The International Development Association (IDA) and the IMF agreed (with the support of the Inter-American Development Bank (IDB)—Bolivia's largest external creditor) that Bolivia has met the requirements for receiving close to $760 million in nominal debt-service relief from its official external creditors under the Heavily Indebted Poor Countries (HIPC) Initiative. In net present value terms, total relief from all of Bolivia's creditors is worth about $450 million, equivalent to over 13 percent of total debt outstanding at the end of 1997. Bolivia has established a strong track record of macroeconomic performance and policy reform and is the first country in Latin America to receive debt relief under the Initiative (the second country overall).

In view of Bolivia's heavy debt-service burden in the coming years, the exceptional assistance from the IDB, the IDA, the IMF, and other major multilateral creditors will be significantly front-loaded, allowing the debt-service ratio to fall below 20 percent of exports starting in 1999. The planned debt reduction will enable a sustained increase in social sector spending of almost 1 percent of GDP over the next four years, free up resources for investment, and allow Bolivia to consolidate its adjustment efforts.

IMF assistance of $30 million ($29 million in net present value terms) will take the form of a grant deposited in an interest-earning escrow account and will be used to meet Bolivia's debt service to the IMF under an agreed schedule. The assistance will be delivered over the period 1998–2002, with over 85 percent of the relief delivered by end-2000. The assistance will cover over 30 percent of Bolivia's debt service to the IMF through the year 2000.

Since the HIPC Initiative was approved in September 1996 as a means of dealing comprehensively with the debt burdens of the world's poorest countries, seven countries have qualified for exceptional assistance. Total nominal debt-service savings projected for these countries are about $6 billion. Assistance to Uganda and Bolivia, the only two countries that have so far obtained debt relief under the Initiative, amounts to about $1.5 billion in nominal terms.

Press Release No. 98/48, October 4

Bulgaria Accepts Article VIII Obligations

The Government of the Republic of Bulgaria has notified the International Monetary Fund (IMF) that it has accepted the obligations of Article VIII, Sections 2, 3, and 4 of the IMF Articles of Agreement, with effect from September 24, 1998. IMF members accepting the obligations of Article VIII undertake to refrain from imposing restrictions on the making of payments and transfers for current international transactions or from engaging in discriminatory currency arrangements or multiple currency practices without IMF approval. A total of 146 countries have now assumed Article VIII status.

Two of the purposes of the IMF, as stated in its Articles of Agreement, are to facilitate the expansion and balanced growth of international trade, and thereby to contribute to the promotion and maintenance of high levels of employment and real income; and to assist in the establishment of a multilateral system of payments in respect of current transactions between IMF members. In seeking to achieve these objectives, the IMF exercises firm surveillance over the exchange rate policies of its members, and oversees the elimination of exchange restrictions which hamper the growth of world trade.

By accepting the obligations of Article VIII, Bulgaria gives confidence to the international community that it will pursue sound economic policies that will obviate the need to use restrictions on the making of payments and transfers for current international transactions, and thereby contribute to a multilateral payments system free of restrictions.

Bulgaria joined the IMF on September 25, 1990. Its quota1 is SDR 464.9 million (about US$655 million).

Press Release No. 98/49, October 14

Public Information Notices

Public Information Notices (PINs) are IMF Executive Board assessments of members' economic prospects and policies issued—with the consent of the member—following Article IV consultations, with background on the members' economies. Recently issued PINs include:

Sweden, No. 76, September 25
Fiji, No. 77, October 1
Bolivia, No. 78, October 2
Romania, No. 79, October 6

Full texts are available on the IMF's worldwide web site (http://www.imf.org/pins).

World Economic Outlook

Forceful Coordinated Response Needed to Put Global Economy Back on Sustained Growth Path

International economic and financial conditions have deteriorated considerably in recent months as recessions have deepened in many Asian emerging market economies and Japan and as Russia's financial crisis—erupting in August 1998—has raised the specter of default. Negative spillovers have infected world stock markets, widened emerging market interest spreads, put acute pressures on several currencies, and forced further drops in already weak commodity prices. Even among the hitherto relatively immune industrial countries of North America and Europe, the effects of the crisis on economic activity are beginning to be felt.

Taking account of these developments, the October 1998 edition of the *World Economic Outlook*—the IMF staff's twice-yearly survey of global economic prospects and policies—has revised its projections for world growth downward from its last assessment in May 1998. Two years of growth significantly below trend are now projected for 1998–99, and the risks of a deeper, wider, and more prolonged downturn have escalated. At a press briefing on September 30, Michael Mussa, IMF Economic Counsellor and Director of the Research Department, said the IMF study is not projecting a global recession—defined as world GDP growth of 1 percent or less. But, he cautioned, such an outcome is a "risk with which policymakers around the world need to be concerned."

Growth Projections Revised Downward

At the press briefing, Mussa said that world GDP growth in 1998 is now expected to reach only 2 percent, versus 3.1 percent as forecast last May. The main reason for the revised projection, he said, is the downturn in Asia—including Japan—which has turned out to be significantly deeper and more widespread than expected by IMF staff or most other analysts just five months ago. For 1999, the staff's downward revision of projected world growth is also larger—from 3.7 percent in May to 2.5 percent. Even around this revised forecast, Mussa said, the balance of risk remains significantly on the downside, especially if the current reduced levels of private financing flows to virtually all emerging market economies persist for an extended period.

There are some hopeful signs on the horizon, Mussa said. Comparing forecast growth for 1999 with the likely outcome for 1998, several Asian economies that are suffering substantial output declines this year should be able to stabilize or perhaps stage modest recoveries next year. In Korea and Thailand, the significant easing of monetary policy since early 1998, made possible by the restoration of reasonable exchange rate stability, will aid recovery, along with dramatic improvements in external positions. Expanding fiscal deficits, reflecting weak activity and the strengthening of social safety nets, will help support consumption in all of the key crisis economies. In China—far and away the largest emerging market economy in East Asia—growth next year will be supported by the stimulus provided by the substantial easing of monetary policy in recent months and by large public works spending. Nevertheless, growth is expected to remain relatively subdued compared with earlier in this decade. Several other Asian emerging market economies—including Singapore and Taiwan Province of China—are also appropriately supporting demand and activity growth with easier monetary and fiscal policies, Mussa said.

Industrial Countries. Growth in the United States and Canada next year is likely to be below the pace of 1998, which for the United States was clearly unsustainable, Mussa said. To guard against the risk that the slowdown might go too far, he noted that the U.S. Federal Reserve, on September 29, had appropriately eased monetary conditions to confront domestic and external risks. Financial markets clearly anticipate further easing in coming months. Canada should be able to do the same, Mussa said, with due regard to concerns about unwarranted depreciation of the exchange rate of the Canadian dollar. The United Kingdom might also well move to easier monetary conditions if the economy weakens further amid signs of waning inflationary pressures.

For continental Europe, growth still seems likely to be reasonably well sustained next year, Mussa explained, with increasing support from domestic demand but rising worries about the external sector due to spreading problems in emerging markets, including Russia, mounting losses for European banks, and appreciating euro area currencies against the currencies of other industrial economies. Downward convergence of short-term interest rates in the euro area toward rates in the core countries should further ease an already moderately accommodative policy stance, he noted.

Emerging Markets. For the emerging market economies beyond east Asia, Mussa said, growth next year in general looks likely to fall well below 1998. The economic and financial crisis in Russia is part of this downward projection, but the main story, in his view, is the recent sharp increase in pressures on virtually all emerging market economies from world financial markets. Even assuming that the present interest rate spreads for emerging market debt subside to less extreme levels, financing flows are likely to remain expensive and limited, putting upward pressure on domestic interest rates in emerging market economies and necessitating downward adjustments in trade deficits.

Policy Responses

Because of its pivotal role in the world economy, and especially in Asia, Japan must take decisive action to resolve banking problems and ensure a self-sustaining recovery, according to Mussa. Responding to a question at the press briefing, he explained that Japan had experienced an extraordinary decline in 1998, not only in investment spending—which might be expected—but also in consumption spending.

The Japanese government has been talking about greater fiscal stimulus, which, Mussa said, seems to be a move in the right direction, since there is no threat that the Japanese economy will overheat next year. Although the fiscal deficit and gross debt of the Japanese government are large, net debt figures are small, and long-term borrowing costs for the Japanese government are now below 1 percent, so even large fiscal deficits and high levels of debt are actually not that expensive to finance.

Fiscal stimulus alone will not provide the basis for sustained recovery, Mussa said. Sustained recovery in Japan requires that growth in private sector demand resume. There needs to be a recovery of confidence in the household and business sectors, and the key is an effort to address—forcefully, credibly, and rapidly—the problems in the banking sector.

The emerging Asian market economies in general, according to the *World Economic Outlook*, need to address weaknesses in policies and institutions that the crisis has unmasked, including the restructuring of their financial and corporate sectors. Russia needs to reestablish monetary discipline, achieve fiscal viability, restructure its banking system, and restore relations with external creditors. Other emerging market countries under stress need to address key problem areas and sources of vulnerability. Finally, the international community must support strong policy actions through multilateral and bilateral financial assistance.

For the United States and the future euro area, the IMF staff study suggests that a moderate easing of monetary policies is desirable to help counter the effects of the deteriorating external environment on domestic activity and to help restore calm in global financial markets. In response to a question at the press briefing, Mussa said the Federal Reserve was right in its general policy stance to recognize that the world economic environment has changed and that it is going to have an impact on the U.S. economy and, hence, implications for U.S. monetary policy.

In all countries, the *World Economic Outlook* emphasizes, it is particularly important that the difficult external environment not lead to defensive exchange rate and trade actions with negative international consequences or to market-closing measures that would threaten countries' longer-term economic prospects.

Reducing Vulnerabilities

According to the *World Economic Outlook*, many developing and transition countries have felt the waves of pressure emanating from Asia and Russia over the past year, with currencies weakening and equity markets declining sharply. The general decline in private capital flows to emerging markets, higher yield spreads, weaker exports to Asia, deterioration in competitiveness as a result of depreciations abroad, and commodity price declines have all been part of the transmission mechanism. Countries with strong economic fundamentals—including many that have turned their economies around in recent years through adjustment and reform policies—have shown the most resilience to spillovers from crisis countries. Nevertheless, discrimination in their favor by private investors has sometimes been lacking.

At the press briefing on the World Economic Outlook *(from right to left), Michael Mussa, IMF Economic Counsellor and Director of Research; Flemming Larsen, Deputy Director; and Graham Hacche, Assistant Director.*

Until the Russian crisis broke out in August, most of the developing countries in the *Western Hemisphere* had weathered the storm in financial markets reasonably well, thanks to a decade-long effort to strengthen economic policies, a broad range of measures to help defend exchange rates, and a tightening of fiscal policies. With the Russian crisis, however, financial market pressures intensified in most of the region, apparently reflecting increased fear of devaluation and default. To alleviate these concerns, individual countries have had to take measures to strengthen and safeguard stability, maintain the credibility of their exchange rate policies, and continue their structural reform efforts.

The crisis in emerging markets has affected *Africa* mainly through commodity prices and trade, since the limited access of most countries in the region to international financial markets has in turn limited the impact of the past year's market turbulence. Growth in Africa is now projected to be little higher than 3½ percent in 1998, but such an outcome would still exceed the growth performance of most of the past 20 years. This can be attributed to substantial improvements in

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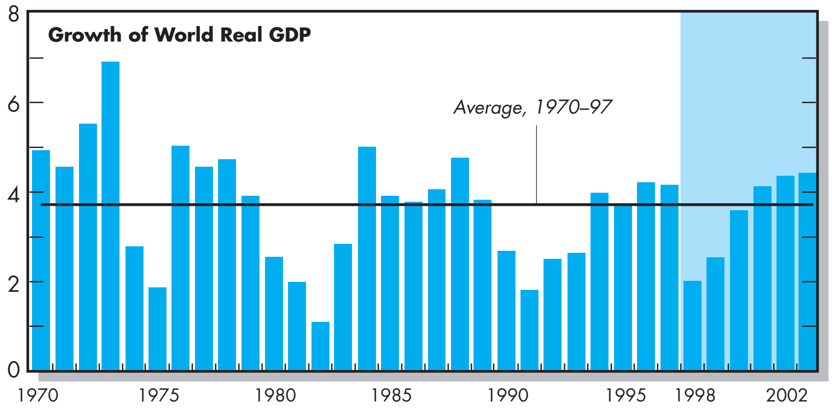
economic policies in many countries, supported by several initiatives to ease the debt burdens of the poorest countries.

In the *Middle East*, the sharp deterioration in external current account positions in the oil-exporting countries has forced governments to compress public sector outlays and contributed to marked decelerations in growth. It will be important, according to the *World Economic Outlook*, that these countries not allow adverse developments to delay implementation of structural reforms that are essential for enhancing medium-term growth prospects.

The *transition countries* have felt the repercussions of the emerging market crisis unevenly. The new round of turbulence set off by the events in Russia in August has had a particularly large impact on Ukraine and other economies with close trade and financial linkages to Russia. Most countries of central and eastern Europe have weathered the crisis better, reflecting their considerable progress in stabilization and economic reform. Nevertheless, in the wake of the Russian crisis, sharp declines in equity prices have been recorded throughout central and eastern Europe, and exchange market pressures have been felt.

World Output
(annual percent change)



Data: IMF, *World Economic Outlook*, October 1998

[1]Shaded areas indicate IMF staff projections. Aggregates are computed on the basis of purchasing-power-parity weights unless otherwise indicated.

Systemic Considerations

The seriousness of the Asian and Russian crises and the intensity of contagion effects to other emerging market countries have underscored the vulnerability of emerging market countries to disruptive shifts in investor sentiment. A key lesson from this experience, the *World Economic Outlook* notes, is the need to address promptly any signs of weaknesses in policies and institutions that may ultimately provoke sharp revisions in investor perceptions of a country's prospects.

It would be wrong, however, to attribute financial crises exclusively to policy shortcomings in the crisis countries, the *World Economic Outlook* stresses. Financial crises like those experienced in Asia and Russia also illustrate the difficulties that emerging market countries can experience when they suddenly become the target for very large capital inflows, as well as the victims of changes in market sentiment that result in massive outflows.

For creditor countries, it is clear that investors, banks, and financial regulators need to recognize the inherently fragile and volatile nature of capital flows by better pricing risks. For recipients of capital flows, the question has arisen whether emerging markets should turn the clock back on capital account liberalization. For many emerging market countries, the *World Economic Outlook* suggests, a more relevant issue is whether capital account liberalization may sometimes be premature in the context of countries' overall progress toward macroeconomic stability and structural reform, including the development of strong financial systems. There is clearly scope for strengthening efforts to ensure that capital account liberalization is well sequenced and prudent.

Other Issues

In one of its chapters, the *World Economic Outlook* reviews Asia's long-term growth performance for clues about the region's recent difficulties and assesses the longer-term implications of the crisis. The *World Economic Outlook* also reviews the origins of Japan's prolonged economic weakness in the 1990s, including the difficulties of the financial system. In addition, as Flemming Larsen, Deputy Director of the IMF Research Department, noted at the September 30 press briefing, another chapter of the study considers policy issues facing the euro area—about to become a reality on January 1, 1999. A key issue is the need for fiscal policy to assume a countercyclical role in the context of a single monetary policy. Structural reforms—particularly of labor markets—are crucial, with or without the euro. However, the consequences of ignoring the need for labor market reforms, Larsen said, could be "more serious in some circumstances under a single monetary policy and single currency." ■

Copies of the October 1998 *World Economic Outlook* will be available in late October for $36.00 (academic rate: $25.00) a copy from IMF Publication Services. See ordering information on page 326. The full text is also available on the IMF's website: http://www.imf.org.