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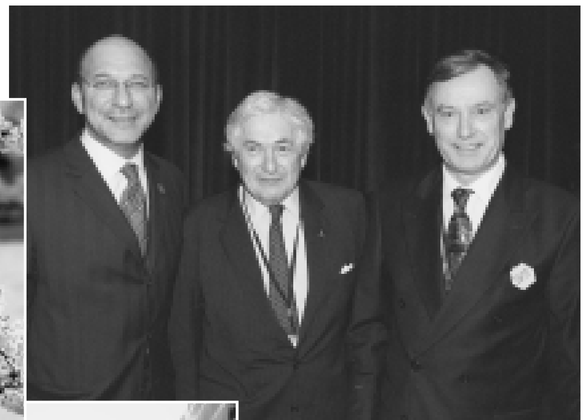
In this issue

Spring meetings

Ministers see improved global economy, vow to resolve financial crises and fight poverty



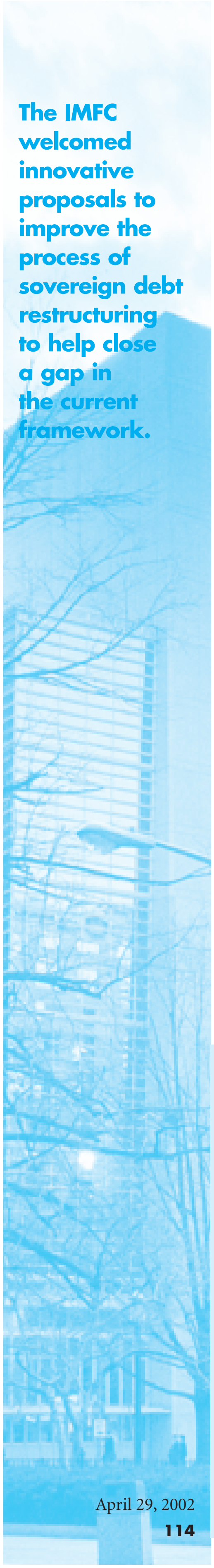
When the world's top financial leaders met on April 20 for the biannual meeting of the International Monetary and Financial Committee (IMFC), they welcomed the markedly improved global economic picture and agreed to take steps to prevent and more quickly resolve financial crises, reinvigorate the fight against poverty, and combat money laundering and the financing of terrorism.

IMFC Chair Gordon Brown, the U.K. Chancellor of the Exchequer, told reporters that it was "a successful meeting" that not only moved the reform process forward and underscored the results of enhanced global cooperation but also "laid the steps for us to go further and faster to meet the Millennium Development Goals while tackling the problem of terrorist finance" (see IMFC press briefing, page 123). He noted that the fears of a global recession—evident when the ministers met last November in Ottawa—had not been realized, "thanks to decisive action by policymakers around the world and the strengthening of international cooperation." He said that the challenge now is for governments to help foster the global recovery that is under way (see *World Economic Outlook*, page 140).

Combating financial crises

One of the main items on the agenda was beefing up crisis prevention and resolution. Brown said that the IMFC agreed on a number of ways that the IMF could do a better job of surveillance, including more comprehensive and candid assessments. The key, he said, was that all now agreed that "individual proposals in this area of reform cannot be taken in isolation, that we are talking about a wider package of reform to create an international financial system in the twenty-first century that recognizes the new realities of open, not sheltered, economies; international, not national, capital markets; and global, not local, competition."

This echoed remarks made by IMF Managing Director Horst Köhler in a National Press Club speech on April 17, that "if we do not manage a better balance between the opening of capital accounts and the expansion of trade, we may see a cyclical recurrence of financial crises. This means that better trade opportunities



The IMFC welcomed innovative proposals to improve the process of sovereign debt restructuring to help close a gap in the current framework.

for all and the expansion of trade must now become the centerpiece for a strategy to promote sustained global growth and truly shared prosperity." He called on the advanced countries to open up their markets and phase out the multibillion-dollar business of trade-distorting subsidies. And he called on the developing countries to get rid of barriers among themselves.

As for speedier crisis resolution, the IMFC welcomed innovative proposals to improve the process of sovereign debt restructuring to help close a gap in the current framework. It encouraged the IMF to continue to examine the legal, institutional, and procedural aspects of two approaches, which could be complementary and self-reinforcing: a statutory approach that would enable a sovereign debtor and a supermajority of its creditors to reach an agreement binding all creditors; and a contractual approach that would incorporate comprehensive restructuring clauses in debt instruments. The financial leaders of the Group of Seven top industrial countries, who also met on April 20, issued their own action plan to improve stability, growth, and potential living standards in emerging markets, stressing the "market-oriented" approach (see Group of 7 statement, page 127). They said the aim of the plan was to "increase the incentives for governments to pay their debts in full and on time."

Fighting poverty

On the second major agenda item—reinvigorating the fight against poverty—Brown said the focus was on meeting the Millennium Development Goals, including cutting poverty in half and ensuring universal primary education by 2015. He said there was an emerging consensus that development assistance must be available as a matching commitment to reform. "We must, of course, ensure that all countries are committed to economic reform, good governance, and poverty reduction; but, if they are, they should not be held back from reaching the Millennium Development Goals because of the lack of financing." Brown said that the IMFC agreed to monitor closely the debt sustainability of the heavily indebted poor countries (HIPCs) as they move toward, and beyond, their completion points for debt relief.

The IMFC communiqué fully endorsed the Monterrey Consensus—agreed at the recent UN Financing for Development Conference in Mexico—which "reaffirmed that sound economic policies and institutions, together with strong, broad-ranging international support, are the twin pillars on which to build enduring poverty reduction." It also welcomed the outcome of the recent reviews of the IMF's concessional loan facility for low-income countries (Poverty Reduction and Growth Facility) and the poverty reduction strategy paper (PRSP) approach. It said the PRSP process—which stresses country ownership of reforms—"should continue to be nurtured as the suitable framework for fostering the efforts of low-income countries and their international partners" to fight poverty and boost growth.

On April 21, the Development Committee, chaired by South African Finance Minister Trevor Manuel, endorsed an action plan for achieving universal primary education by 2015 (see box). It also urged the World Bank to continue its work on enhancing the effectiveness and efficiency of aid, leading up to a high-level forum scheduled for early 2003 (see Development Committee communiqué, page 126).

Tackling money laundering

Brown said the ministers agreed there should be no hiding place for those engaged in terrorist financing and no safe haven for those who launder the proceeds of illegal activities. The IMFC communiqué said it was encouraged that many countries had responded to the committee's call last November for all countries to ratify and implement fully the UN instruments to counter terrorist financing, freeze terrorist assets, and establish financial intelligence units and ensure the sharing of information. It also stressed that success will "critically depend on continued vigilance and timely action at the global level," and called on the IMF to make further progress on this front, consistent with its mandate and expertise. At the same time, the Group of Seven's communiqué announced the first joint freezing of assets held by a group and individuals identified as having terrorist affiliations. ■

Laura Wallace
Editor, *IMF Survey*

Education for All Action Plan

The World Bank's proposed action plan on achieving the Millennium Development Goal of universal primary education by 2015 calls for a new development compact. The idea is that governments would demonstrate their commitment to education through efforts to radically transform their education systems, and external partners would provide financial and technical support in a transparent, predictable, and flexible manner. The plan also calls for "fast-tracking" some 10 countries for quick and incremental support.

The need for the plan was prompted by new calculations showing that 88 countries are unlikely to meet the universal education goal, and some 35 countries are unlikely to meet the goal of eliminating gender disparities at the primary level by 2005. In addition, there is expected to be a $2.5–5 billion a year financing gap for the period 2002–2015.

Köhler calls for balanced growth of capital flows and trade

Following are edited excerpts of an address, "Promoting Sustained Growth and International Financial Stability," by IMF Managing Director Horst Köhler at the National Press Club in Washington, DC, on April 17. The full text of the speech and the question and answer session that followed are available on the IMF's website (www.imf.org).

In April 2002, it is clear that September 11 did not pull down the global economy for long. This is mainly due to the leadership of the United States, with its bold decisions to lower interest rates and reduce taxes. A recovery is under way now in the United States, and this is already beginning to have a positive impact on the economies in other regions. It is only fair now for me to pay off my bet with U.S. Secretary of the Treasury Paul O'Neill and treat him to dinner. His faith in a relatively early turnaround of the U.S. economy has prevailed over my more cautious assessment. And, of course, I am happy about that.

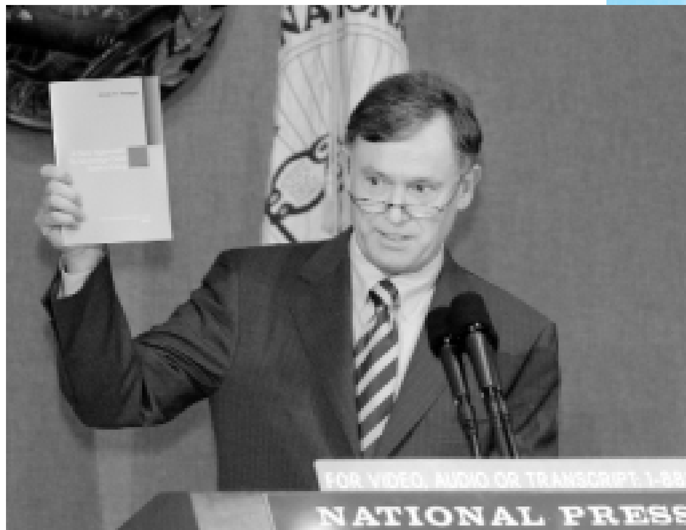
The question mark is mainly how strong and durable the recovery in the United States will be. This relates in particular to uncertainties about company earnings with their implications for business investment, the volatility of the oil price, and political uncertainties in the world, in particular related to the situation in the Middle East.

Vigilance needed

Such a situation does not call for frantic action. What is needed is vigilance and a firm policy hand to make the recovery robust and more dynamic. This means the main focus of policy must shift from short-term considerations to tackling decisively underlying problems. And, here, a main responsibility lies with the advanced economies.

The United States must pay special attention to preventing the reemergence of the twin deficits (fiscal and external) of the 1980s. This requires firm control over public spending and the definition of a long-term strategy to increase national savings.

The other major economies also can and must contribute to the reduction of the global imbalance related to the U.S. current account deficit. Europe has been a stabilizing factor during the recent slowdown. What I still miss is a stronger ambition to move to a higher potential growth path with stronger domestic demand dynamics. The road map for this is already defined in the reform agenda to create a truly single common market. And there is enough evidence that structural reforms must also be accelerated at the national level, in particular in labor markets and social security systems. Japan's ongoing recession is still a drag on global growth, particularly on activity in the Asian region. There is now hope that the recession is bottoming out. But



Köhler displays a copy of Anne Krueger's *A New Approach to Sovereign Debt Restructuring*—an approach he termed "farsighted."

the return to a growth performance that corresponds to Japan's size and potential demands decisive action for the disposal of nonperforming loans, industrial deregulation, and restructuring of its banking and corporate sectors.

For emerging markets and low-income countries, the worldwide slowdown in 2001 confirmed one important lesson: good policies pay off. Countries with sound fiscal and monetary policies and persistence with structural reforms have weathered the storm better than others and have demonstrated that it is possible to decouple from contagion. They should stay the course. Together, the global economy and the international financial system demonstrated a remarkable resilience in 2001.

With all due modesty, it is fair to say that the IMF has played a role in this. Our work to strengthen the global financial system has begun to bear fruit. And the fact that the membership of the IMF came together last November at a critical moment for the global economy was crucial. The Ottawa meeting of the IMFC [International Monetary and Financial Committee] emphasized a collaborative approach that worked.

- On the whole, the advanced economies used their room for maneuver to rebuild momentum for the global economy.

Better trade opportunities for all and the expansion of trade must now become the centerpiece for a strategy to promote sustained global growth and truly shared prosperity.
—Horst Köhler

• The IMF helped shield poor countries through augmented financial support under the Poverty Reduction and Growth Facility (PRGF).

• We assisted emerging market countries, for example, through timely decisions on programs for Turkey and Brazil.

• We also defined an ambitious action program to support the international effort to combat money laundering and the financing of terrorism.

Better globalization

But the crisis in Argentina and persistent vulnerabilities in a number of countries leave no room for complacency. Argentina, in particular, has shown that protracted external borrowing to finance public consumption, without generating sufficient external revenues, breeds disaster.

There is a more general point: the expansion of global capital markets needs to be better anchored in stronger trade integration and, thus, growth in debtor countries. The fact is, however, that since the late 1980s the degree of integration of developing countries as a group into global capital markets (measured by foreign assets and liabilities as a ratio to GDP) doubled, while trade openness (measured as the ratio of exports and imports to GDP) has increased relatively little with the important exception of Asia.

As highlighted by comparative analysis in the IMF's upcoming *World Economic Outlook*, overall, Latin America's external vulnerability is higher than that of other emerging market countries. Why? Latin American emerging markets as a group are relatively more integrated into global capital markets. But, at the same time, they have not managed to raise the share of their exports in GDP in line with their increased external borrowing.

If we understand crisis prevention as tackling the causes of crises, we need to view this imbalance as a fundamental problem. I am deeply convinced that we need not less, but more integration of economies to foster growth in the global economy, not least to fight world poverty. But if we do not manage a better balance between the opening of capital accounts and the expansion of trade, we may see a cyclical recurrence of financial crises.

This means that better trade opportunities for all and the expansion of trade must now become the centerpiece for a strategy to promote sustained global growth and truly shared prosperity. And in this context, I think the advanced countries again have a main responsibility—in particular, by opening up their markets and phasing out the multibillion-dollar business of trade-distorting subsidies. It is essential to have leadership to face and withstand the special interests of some groups for the benefit of the broad majority of the people in both rich and poor countries. But the leaders in the developing countries should be equally ambitious in getting rid of barriers to trade among themselves.

Where does the IMF stand today?

The IMF is working on a broad reform agenda, learning from experience and adapting to changes in the global economy. And I expect the IMF to learn even faster in the future thanks to the work of the Independent Evaluation Office. And there has been progress.

The IMF has already seen a revolution in transparency and openness. It is now better focused on macroeconomic stability and sustainable growth. To this end, our work is concentrating increasingly on the soundness of financial sectors in member countries and on the assessment of developments in international capital markets. We have also reviewed our conditionality to focus better on priorities and give room to ownership of reforms by the countries themselves. Finally, we have intensified our cooperation with other international institutions, in particular the World Bank.

Learning from experience also leads us to be more humble. We must draw firmer conclusions from the fact that sound institutions and good governance are crucial for sustained growth and financial stability. That is, we have to be more realistic about what the IMF can influence by providing money. And we must bear in mind that, to resolve homegrown problems, no money in the world can substitute for self-responsibility and political unity in a society.

I am deeply concerned about the developments in Argentina—particularly the social hardship for a large part of the population. The IMF wants to help Argentina. We are not asking for the impossible. But it is of fundamental importance that the federal government, the congress, and provincial governments face reality, pull together, and agree on an economic reform program that gives new trust to the Argentine people and to domestic and foreign investors. There is also agreement with the government that every effort must be made to help cushion the impact of the crisis on the poor. Here, the World Bank and the Inter-American Development Bank have the lead in developing specific programs.

Crisis prevention and resolution

A well-functioning market economy draws its strength and dynamism from competition. This means a continuous search for better results, better products, and higher productivity. We have to accept that some degree of overshooting and correction will always be part of that process if we want to preserve a system based on freedom of choice and self-responsibility. And there are limits to the ability to predict and thereby prevent crises. Our objective can only be fewer and less severe crises.

The major vehicle to promote this objective is the IMF's surveillance function. The Executive Board of the IMF recently began a major review of surveillance. There is agreement that further strengthening the effectiveness of surveillance has two main aspects: better policy advice and greater impact. From the Board discussion I draw the following conclusions.

First, the IMF needs to concentrate even more on vulnerabilities and risks, on seeking improvements in the quality and timeliness of data provided by countries, and on promoting standards and codes as "rules of the game" for the global economy.

Second, member countries need to strengthen shock absorbers that make them more resilient to adverse external developments. This points to the importance of more flexible exchange rate regimes, prudent fiscal policies, and stronger, deeper, and more diversified financial systems, but also to the importance of more effective social safety nets.

Third, and perhaps most important, we need to become better at persuading countries to take early action to address emerging problems and imbalances. This applies to both advanced and developing economies, because vulnerabilities and risks to the global economy and to financial stability do not originate in emerging markets alone but from the major economic and financial centers as well. More transparency and greater candor in our advice is one major avenue toward this objective. A more proactive engagement of the IMF to reward good policies through contingent or precautionary financing is another.

Over the past couple of decades, international capital markets have become the most important source of capital flows to emerging markets. By the same token, private sector financing has become increasingly crucial for innovation and economic growth more generally. Adapting to these changes also means building a public-private partnership between private financial institutions and public institutions such as the IMF. As part of this approach, the IMF has launched an informal but regular dialogue with the private sector, and I am quite pleased about the way the Capital Markets Consultative Group has evolved. As a result, we have been able to engage constructively on issues, such as investor relations programs in member countries and promoting standards and codes, including on corporate governance and accounting principles.

In this context, I encourage the private sector to come forward with more ideas on how to strengthen the self-correcting mechanisms of markets. Here, I would include more effective self-regulation and restraint to counter excessive risk taking and "creative" accounting.

For crisis resolution, it is an indispensable principle that debtors and private creditors must bear the responsibility for the risks they take. But private financial institutions also—and rightly so—have asked for greater clarity and predictability about the decisions the IMF will make in a crisis to enable investors to price risks adequately.

Köhler: "We need to become better at persuading countries to take early action to address emerging problems and imbalances."

Our current work program is directed in large measure at this goal. It is focused on three critical and interrelated areas: better-informed judgments about debt sustainability; clarifying the policy on access to IMF resources, which means establishing clearer presumptions about limits to IMF financing; and working on a new legal framework for restructuring unsustainable sovereign debt.

On this last point, there is broad agreement on the need for better incentives and tools to allow for a more timely, orderly, and less costly restructuring of unsustainable debt. The IMF Board is discussing two principal approaches:

• a statutory framework, based on an amendment of the Articles of the IMF, which would facilitate an agreement between a sovereign debtor and its creditors. In this new approach, creditors could decide by a qualified majority on the terms of a restructuring deal and make these terms legally binding on all creditors.

• a contractual approach, which seeks to achieve similar results through the widespread inclusion of collective action clauses in bonds and other debt contracts.

It is clear that there is a gap in the current approach to crisis resolution that has to be closed. While more ambitious use of collective action clauses is desirable, I do not believe this alone would be sufficient. The proposal for a new Sovereign Debt Restructuring Mechanism (SDRM), developed by Anne Krueger and IMF staff, is, in my view, farsighted and will close this gap. Work remains to be done in these areas, but I hope that we will have found a broad consensus on the SDRM by the time of our Annual Meetings this fall. ■

Communiqué

IMFC urges rich countries to lead strong, sustained global recovery

Following is the text of the communiqué of the International Monetary and Financial Committee of the Board of Governors of the IMF.

IMFC Chair Gordon Brown (left) chats with Brazilian Finance Minister Pedro Malan before the IMFC meeting.

The International Monetary and Financial Committee held its fifth meeting in Washington, DC, on April 20 under the chairmanship of Gordon Brown, Chancellor of the Exchequer of the United Kingdom. The committee welcomes the international community's decisive policy actions, especially following the tragic events of September 11, 2001, to maintain financial stability, restore the momentum of world economic growth, and reinvigorate the fight against poverty. We will also sustain our global action to combat money laundering and the financing of terrorism. Our meeting in Ottawa last November emphasized the importance of a collaborative approach for the IMF and its members. Going forward, we will continue to work together for sustained, broad-based growth, creating opportunities for productive employment, reducing vulnerabilities, opening up our economies to trade, and providing resources for durable poverty reduction.

Global economy

Since the committee's last meeting, the prospects for the world economy have improved markedly. The challenge now is for governments to help foster the global recovery that is under way. This will require continued vigilance and a further strengthening of medium-term policy frameworks—both to improve prospects for sustainable growth and stability and to reduce vulnerabilities. The committee notes the uncertainties associated with the international security issues around the world and also the deteriorating situation in the Middle East. The committee underscores the importance of stability in oil markets at prices reasonable for consumers and producers.

The advanced economies have a responsibility to promote a strong and sustained world economic recovery. While keeping inflation under control, monetary policies should remain broadly supportive of growth. In countries where the recovery is more advanced, consideration may need to be given in the months ahead to reversing earlier policy easing. Reforms should be pursued vigorously, with the aim of improving economic flexibility and resilience, contributing to high and sustainable world growth, and supporting the orderly reduction of persistent imbalances in the global economy. This process will be helped, in Japan, by decisive action to reform the banking and corporate sectors, along with monetary easing to help end deflation; in Europe, by continued progress with wide-ranging reforms to enhance its growth potential; and, in the United States, by focusing on the efforts needed over the medium term to preserve fiscal balance.

The recovery in industrial countries will contribute to supporting activity in emerging market and developing countries. The committee is encouraged that many emerging market economies have become more resilient through the adoption of sound economic policies—including more sustainable exchange rate regimes. It will, nevertheless, remain crucial to further strengthen fiscal positions and to press ahead with corporate, financial, and institutional reforms to support the emerging recovery and attract foreign direct investment. Improved differentiation and risk assessments by markets have served to limit so far the contagion effects of the Argentine crisis. The committee acknowledges the steps being taken by Argentina to address its difficult economic situation and urges the authorities, in cooperation with the IMF, to move quickly to reach agreement on a sustainable economic program that could receive the support of the international financial institutions and provide the basis for the reestablishment of stability and growth.

The committee strongly welcomes the commitment by the international community, at the UN Conference in Monterrey, to improve living standards and reduce poverty through sound policies and higher and more effective aid. It fully supports the New Partnership for Africa's Development and its call for strong domestic ownership, sound policies, strengthened institutions, and improved governance. The committee welcomes recent announcements of increased and more effective aid and urges further progress. The Monterrey Consensus will constitute an important input to the World Summit on Sustainable Development in Johannesburg. The committee also welcomes the new initiative to enhance growth and reduce poverty in low-income CIS [Commonwealth of Independent States] countries.

The committee stresses the vital importance of more open trade for a durable economic recovery and for sustained, broad-based growth in the developing countries in particular. It urges all countries to resist protectionist pressures and to continue to lower trade barriers, concluding the Doha trade round successfully and in a timely manner. Enlarging market access for developing countries and phasing out trade-distorting subsidies will benefit both developed and developing countries. The committee welcomes the commitment, reiterated at Monterrey, to work toward the objective of duty- and quota-free market access to the exports of least-developed countries. It also notes the potential for increased opportunities

The committee calls on the IMF to spare no effort in enhancing the high quality of its policy advice, and on members to implement this advice.

—IMFC communiqué

Available on the web (www.imf.org)

News Briefs

02/26: IMF Completes Second Review of Croatia Under Stand-By Credit, March 29
02/27: IMF Gives Final Approval of PRGF Arrangement for Côte d'Ivoire, April 2
02/28: IMF Completes Second Review Under Senegal's PRGF Arrangement and Approves $11 Million Disbursement, April 8
02/29: IMF Completes Review Under Burkina Faso's PRGF Arrangement and Approves $7 Million Disbursement, April 9
02/30: IMF Approves Extension of Arrangement with Jordan, April 12
02/31: IMF Completes Review Under Sri Lanka's Stand-By Arrangement and Approves $60 Million Disbursement, April 15
02/32: IMF Approves $1 Billion Tranche to Turkey Under Stand-By Credit, April 15 (see page 138)
02/33: IMF Managing Director Welcomes Spain's PRGF Contribution, April 16
02/34: IMF Completes Fourth Review Under Tanzania's PRGF Arrangement and Approves $25 Million Disbursement, April 16
02/35: IMF Completes Evaluation of Performance Under Chad's PRGF Arrangement and Approves $3 Million Disbursement, April 18
02/36: China Formally Begins Participation in the IMF's General Data Dissemination System, April 19

Press Releases

02/16: IMF Approves One-Year Stand-By Credit for Guatemala, April 1
02/17: East Timor Applies for IMF Membership, April 4
02/18: IMF Approves in Principle Three-Year, $11 Million PRGF Arrangement for Cape Verde, April 4
02/19: IMF Adopts Safeguards Assessments as a Permanent Policy, April 5
02/20: IMF Names George Abed to Head Middle Eastern Department, April 10
02/21: IMF and World Bank Support Additional Debt Relief for Burkina Faso Under Enhanced HIPC Initiative, April 12
02/22: Communiqué of the International Monetary and Financial Committee, April 20 (see page 118)
02/23: Ministers Endorse International Initiative for Seven Poor Countries of the Commonwealth of Independent States, April 20 (see page 136)

Public Information Notices

02/38: IMF Board Holds Informal Seminar on Sovereign Debt Restructuring, April 1
02/39: IMF Concludes 2001 Article IV Consultation with the Republic of Slovenia, April 4
02/40: IMF Concludes 2001 Article IV Consultation with the Russian Federation, April 4
02/41: IMF Concludes Post-Program Discussion on the Philippines, April 9
02/42: IMF Board Discusses the Real-Time Assessments of Conditionality, April 19
02/43: IMF Concludes 2001 Article IV Consultation with Kenya, April 19
02/44: IMF Executive Board Reviews the Fund's Surveillance, April 18
02/45: IMF Executive Board Discusses the Status of Implementation of the Enhanced HIPC Initiative, and Update on Financing of PRGF and HIPC Operations and Subsidization of Post-Conflict Emergency Assistance, April 22
02/46: IMF Concludes 2002 Article IV Consultation with Turkey, April 19

Speeches

"New Approaches to Sovereign Debt Restructuring: An Update on Our Thinking," Anne Krueger, IMF First Deputy Managing Director, Institute for International Economics, Washington, D.C., April 1
"Promoting Sustained Growth and International Financial Stability," Horst Köhler, IMF Managing Director, National Press Club, Washington, D.C., April 17 (see page 115)

Transcripts

Press Conference on Russia by Anne O. Krueger, IMF First Deputy Managing Director, March 21
Teleconference on Sovereign Debt Restructuring Mechanism with Washington-Based Journalists by IMF First Deputy Managing Director Anne Krueger, April 1
Introductory Remarks on the Role of the IMF Mission in Argentina by Anoop Singh, IMF Director for Special Operations, April 10
IMF Economic Forum—Globalization: North-South Linkages, April 11
Press Briefing by Thomas C. Dawson, Director, IMF External Relations Department, April 12
Teleconference on Turkey by Michael Deppler, Director, European I Department, April 16 (see page 139)
Press Conference by IMF Managing Director Horst Köhler at the National Press Club, April 17
World Economic Outlook Press Conference by Kenneth Rogoff, IMF Economic Counsellor and Director of Research, April 18 (see page 140)
Press Briefing with Group of 24 Ministers, April 19
Press Briefing with African Finance Ministers, April 20 (see page 134)
Press Conference Following the IMFC Meeting by IMF Managing Director Horst Köhler and Gordon Brown, U.K. Chancellor of the Exchequer and Chair, IMFC, April 20 (see page 123)

Communiqués

International Monetary and Financial Committee, April 20 (see page 118)
Intergovernmental Group of 24 on International Monetary Affairs and Development, April 20 (see page 130)
Development Committee (see page 126)

The PRSP process should continue to be nurtured as the suitable framework for fostering the efforts of low-income countries and their international partners to achieve poverty reduction and higher growth.
—IMFC communiqué

from lowering trade barriers among developing countries.

Strengthening crisis prevention, resolution

Surveillance remains central to the IMF's mandate to promote sound economic growth and financial stability and to help prevent crises. The committee is encouraged by the substantial progress in recent years to adapt and broaden the coverage of surveillance in response to a changing global environment while focusing on issues central to economic and financial stability.

The committee calls on the IMF to spare no effort in enhancing the high quality of its policy advice, and on members to implement this advice. Surveillance will be further enhanced by

• strengthened assessments of vulnerabilities, with particular attention to debt sustainability and the private sector's balance sheet exposure;

• focusing on the global impact of the policies, including trade policies, of the largest economies;

• more candid and comprehensive assessments of exchange arrangements and exchange rates;

• expansion of substantive financial sector surveillance to the entire membership, including to offshore financial centers;

• strengthened coverage of relevant structural and institutional issues;

• on issues outside the IMF's core expertise, more effective use of the expertise of appropriate outside institutions, in particular the World Bank;

• further integration of multilateral, regional, and country surveillance; and

• deeper coverage of international capital markets.

The committee notes that the process of surveillance should cover effective and timely reassessments of economic conditions and policies. In program countries, this may require a fresh perspective and appropriate distance from day-to-day program implementation issues.

The committee encourages the IMF to press ahead with the range of recent initiatives designed to enhance the effectiveness of surveillance and crisis prevention. These include the Financial Sector Assessment Program and policies on transparency, including encouraging publication of Article IV and other IMF reports. Further work on standards and codes is a crucial item in the forward agenda to strengthen their relevance and contribution to IMF surveillance and to ensure that countries have adequate access to technical assistance. The committee encourages eligible countries to consider applying for the Contingent Credit Lines and looks forward to a review.

The committee endorses the IMF's work program to strengthen the existing Prague framework for crisis resolution, in particular to provide members and markets with greater clarity and predictability about the decisions the IMF will take in a crisis. This will involve

• improving debt sustainability assessments;

• clarifying the policy on access to IMF resources for members facing financial crises—with access beyond normal limits requiring more substantial justification, and recognizing that some of these members' quotas do not adequately reflect their potential financing needs;

• strengthening the tools for securing private sector involvement; and

• examining a more orderly and transparent framework for addressing the exceptional cases in which a sovereign needs to restructure an unsustainable debt, as well as clarifying the conditions under which the IMF would be prepared to lend into arrears.

The committee welcomes the consideration of innovative proposals to improve the process of sovereign debt restructuring to help close a gap in the current framework. It encourages the IMF to continue to examine the legal, institutional, and procedural aspects of two approaches, which could be complementary and self-reinforcing: a statutory approach that would enable a sovereign debtor and a super-majority of its creditors to reach an agreement binding all creditors; and a contractual approach that would incorporate comprehensive restructuring clauses in debt instruments. The committee looks forward to reviewing progress in this area at its next meeting.

IMF's role in low-income countries

The committee fully endorses the Monterrey Consensus, which has reaffirmed that sound economic policies and institutions, together with strong, broad-ranging international support, are the twin pillars on which to build enduring poverty reduction. It encourages the IMF to work closely with the UN, the World Bank, the regional development banks, and bilateral donors in developing a comprehensive and transparent system to monitor progress toward the Millennium Development Goals.

The committee welcomes the outcome of the recent reviews of the IMF's Poverty Reduction and Growth Facility (PRGF) and of the poverty reduction strategy paper (PRSP) approach. The PRSP process should continue to be nurtured as the suitable framework for fostering the efforts of low-income countries and their international partners to achieve poverty reduction and higher growth. The substantial progress under PRGF-supported programs in implementing the PRSP approach will be further enhanced by better identifying the sources of sustained growth, strengthening public expenditure management, and using poverty and social impact analysis more systematically. The committee encourages the IMF and the World Bank to continue their collaboration on each of these issues and looks forward to reviewing progress at its next meeting. Capacity building will remain a potent vehicle for ensuring ownership and enhancing the implementation of effective poverty reduction strategies, and the committee looks forward to the review of technical assistance leading to its increased effectiveness. The committee welcomes, in particular, the African Regional Technical Assistance Centers, whose establishment will support the New Partnership for Africa's Development, and looks forward to the timely financing of this initiative.

The recovery of low-income countries that have been affected by the recent economic slowdown and commodity price shocks will continue to require particular attention. The committee supports the IMF's continued readiness to respond flexibly and proactively to the financing needs of low-income countries, including by augmenting PRGF financing where necessary. It recognizes that there may be a need to consider mobilizing new PRGF resources if the high demand for PRGF financing continues. While the committee is encouraged by the progress with the implementation of the Heavily Indebted Poor Countries (HIPC) Initiative, it notes that, in a number of cases, debt sustainability remains an issue and calls on the IMF and the World Bank to review the situation. It urges eligible countries to step up their reform efforts to reach their decision and completion points, noting, in this context, the flexibility embedded in the HIPC Initiative framework to accommodate the special circumstances of countries emerging from conflict. The committee notes the application within the current guidelines of the topping-up feature designed to help countries cope with exceptional exogenous shocks. It calls for further efforts to enhance debt management in HIPCs and continued close monitoring of their debt sustainability as they move toward, and beyond, their completion points.

Streamlining conditionality and enhancing ownership

The committee welcomes the initial progress made toward enhancing the effectiveness of IMF-supported programs through streamlined and focused conditionality and strong national ownership of economic reforms. It urges further progress, in cooperation with the World Bank, and looks forward to a report on these issues, including on the IMF's consideration of new conditionality guidelines, at its next meeting.

Combating money laundering and financing of terrorism

The committee underscores that international efforts to counter abuse of the international financial system to finance terrorism and launder the proceeds of illegal activities remain a priority. It is encouraged by the response by many countries to its call last November for all countries to ratify and implement fully the UN instruments to counter terrorism financing, freeze terrorist assets, establish financial intelligence units, and ensure the sharing of information. The committee urges countries that have not as yet done so to fully implement and comply with these instruments. It also welcomes the substantial progress made by the IMF, in close collaboration with the World Bank, in implementing all elements of its action plan to intensify the work to combat money laundering and the financing of terrorism. The committee notes in particular the good start made in assessing gaps in national regimes to fight money laundering and combat the financing of terrorism, and fully supports the provision of technical assistance to help countries identify and address such gaps.

Canadian Finance Minister Paul Martin (left) confers with his French counterpart Laurent Fabius at the IMFC meeting.

While reiterating the responsibility of national authorities for combating money laundering and the financing of terrorism, the committee stresses that success will critically depend on continued vigilance and timely action at the global level. It calls on the IMF to make further progress on all elements of its work program, consistent with its mandate and expertise. In particular, efforts should now be focused on completing the comprehensive methodology for fighting money laundering and combating the financing of terrorism, based on a global standard covering the Financial Action Task Force recommendations, and the development of assessment procedures compatible with the uniform, voluntary, and cooperative nature of the Reports on the Observance of Standards and Codes process. Enhancing the delivery of technical assistance to combat money laundering and the financing of terrorism will also be crucial. The committee urges the IMF, in cooperating with other international organizations and donor countries, to identify and respond to needs for technical assistance. It looks forward to receiving a full report on progress in this area at its next meeting. The committee calls on members to share information on their own actions in this field.

Other issues

The committee notes that the Twelfth General Review of IMF Quotas has commenced. Quotas should reflect developments in the international economy. The committee recommends an early implementation of the Fourth Amendment.

The committee welcomes the progress report on the Independent Evaluation Office, and looks forward to receiving regular updates on its activities. ■

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IMFC press conference

Brown and Köhler hail successful meeting

Following are edited excerpts from a press conference held after the meeting of the International Monetary and Financial Committee (IMFC) on April 20 in Washington, DC. Participating were Gordon Brown, Chancellor of the U.K. Exchequer and Chair of the IMFC, and Horst Köhler, IMF Managing Director.

BROWN: I am delighted to be here with the Managing Director, Horst Köhler. I just want to draw your attention to a number of decisions made by the IMFC.

First, on the world economy, when we met last autumn, there was widespread pessimism about the global economy, with fears of a global slowdown or even a global recession. Thanks to decisive action by policymakers around the world and the strengthening of international cooperation over the past six months, these fears have not been realized.

We agreed that prospects for the world economy had improved markedly. Indeed, the challenge now is for governments to help foster the global recovery that is under way. This will require continued vigilance and a further strengthening of medium-term policy frameworks, both to improve prospects for sustainable growth and stability and to reduce vulnerabilities. The committee underscores the importance of stability in oil markets, at prices reasonable for consumers and producers.

So the committee meeting today is more optimistic than before about the prospects for recovery, while always determined to remain vigilant about the risks.

We also had a useful discussion on a second issue—reforms to the international financial system. We discussed measures that would be needed to step up the reforms to the crisis prevention framework based on agreed codes and standards. We are agreed on a number of ways in which the IMF could strengthen its surveillance role, including through more comprehensive and candid assessments. We have also encouraged the IMF to continue to examine the legal, institutional, and procedural aspects of both the statutory and a contractual approach to crisis resolution.

I think the key point on which we are all now agreed is that individual proposals in this area of reform cannot be taken in isolation—we are talking about a wider package of reform to create an international financial system for the twenty-first century that recognizes the new realities of open, not sheltered, economies; international, not national, capital markets; and global, not local, competition. We are agreed that all governments, international financial institutions, and the private sector must accept their responsibilities to make this system work for both stability and growth.

Now the third issue that we discussed was the next steps to be taken to ensure that the 2015 Millennium Development Goals can be achieved. We thank the Managing Director and, indeed, the President of the World Bank for the work that they put into the success of the Monterrey conference and acknowledge the commitments made by the European Union and U.S. governments last month to increase development aid.

Brown (right): "We must, of course, ensure that all countries are committed to economic reform, good governance, and poverty reduction; if they are, they should not be held back from reaching the Millennium Development Goals because of a lack of financing."

There is now, I think, an emerging consensus that we must go further, that development assistance must be made available as a matching commitment to reform. We must, of course, ensure that all countries are committed to economic reform, good governance, and poverty reduction; if they are, they should not be held back from reaching the Millennium Development Goals because of a lack of financing. We also agreed to monitor closely, and that the IMF and the World Bank should review, the debt sustainability of heavily indebted poor countries as they move toward and beyond their completion points.

On terrorist financing, we discussed the action we had taken to counter the abuse of the international financial system to finance terrorism and launder the proceeds of illegal activities. It is our view that there should be no hiding place for those engaged in the funding of terrorism, and there should be no safe haven for those who support these illegal activities. The committee is encouraged by the response of many countries to its call last November for all countries to ratify and implement fully the UN instruments to counter terrorist financing, freeze terrorist

It is clear, given the root causes of the crisis in Argentina, that the financial policies of provinces have to be, from the outset, part of the solution.
—Horst Köhler

assets, and establish financial intelligence units to root out terrorist finance in their countries. We are also pleased by the continued progress in the sharing of information between countries, and we welcome the close collaboration between the IMF and the World Bank on this issue.

This was a successful meeting that not only moved forward the process of reform and showed that the cooperation that has taken place within the world economy has been yielding results but also laid the steps for us to go further and faster to meet the Millennium Development Goals while tackling the problem of terrorist finance.

KÖHLER: It was a good meeting, also, from my perspective. We had, again, a very efficient chair for the meeting and good discussions. There was also appreciation for the work of the IMF staff and endorsement for the organization's work program in the months ahead.

QUESTION: A fairly obvious question, Mr. Managing Director. Argentine Minister of the Economy Jorge Remes Lenicov made a presentation to the committee and to you, and to other members of the IMF management and staff. The situation is getting even a bit more desperate in Argentina, but your statement today indicates you are not particularly closer to resuming a program with Argentina. Where do things stand?

KÖHLER: My meeting with the minister was a very good meeting—a very open, frank discussion. There is recognition, clearly, that the IMF mission under the leadership of Anoop Singh has made progress in Buenos Aires. I strongly reiterated to the minister that the IMF is committed to concluding a program; there should be no doubt about that. But the conclusion needs to be built on a sustainable approach to the issues. With me and at the luncheon, the minister was quite clear. The minister has to go back to Buenos Aires and report to his president and, of course, work further.

QUESTION: The measures the IMF expects from Argentina seem to be clear. How clear are the social costs of some of the measures?

KÖHLER: There was no one in the bilateral meeting or, even more, at the ministers' lunch, who was not aware of and concerned about the social problems in the context of the adjustment and turmoil in Argentina. From the beginning, the IMF's approach has had a strong element of what to do for social alleviation. The World Bank and the Inter-American Development Bank have taken the lead in this regard, as World Bank President James Wolfensohn confirmed at the luncheon. We certainly can't promise that this is a very comfortable process, but there is awareness that there also has to be a response to this part of the difficulties.

BROWN: I was at the IMFC luncheon when the Argentine Minister of the Economy presented his experience and case to us. There was a discussion of the social effects of what was happening in Argentina. The whole basis of our discussion was how we could help Argentina get back to growth and return to a situation in which the standards of living could improve. Our communiqué acknowledges the steps Argentina has taken to address its difficult economic situation and urges the authorities to move quickly to reach agreement on a sustainable economic program.

The Group of Seven communiqué also said that we support the IMF's work and that the situation in Argentina is of serious concern. Reforms of the fiscal framework encompassing the provinces, establishing a monetary anchor, and improving the bankruptcy and economic subversion laws will all help to restore investment and growth, thereby raising the living standards of the Argentine people. The whole basis of this discussion was how the international organizations and individual countries can put themselves in a position to help Argentina restore its standard of living and, indeed, the stability and growth of the economy.

QUESTION: Is the bank holiday announced on Friday going to help Argentina move toward a sustainable program?

KÖHLER: The government decided on this bank holiday and, I expect, thought it through carefully. I do think something was needed, because they had been met with a bank run.

QUESTION: On Argentina, what is the next concrete step?

KÖHLER: Some technical work has to be done, but I expect our people to be back in Buenos Aires in mid-May to negotiate the letter of intent.

QUESTION: The IMF wants assurances from each of the provinces. It is not easy to negotiate one by one. If Argentina really needs to do that and the agreement is delayed, isn't there a possibility that the social and political situation, and even the banking system, could deteriorate more?

KÖHLER: It is clear, given the root causes of the crisis in Argentina, that the financial policies of provinces have to be, from the outset, part of the solution. I think that Minister Remes will report to President Duhalde that the fact that the provinces have to be part of the solution from the outset is a clear signal from the ministers of this committee to Argentina. I expect that in Argentina there is enough sense of urgency not to be trapped in this debate. The IMF needs to have a consolidated account of the fiscal situation in Argentina. This is possible, this is needed, and this is also the basis for our agreement at the end of a program.

QUESTION: You commented on the Japanese economy earlier this week. Finance Minister [Masajuro] Shiokawa told us yesterday that the IMF's *World Economic Outlook* and your own comment on Japan were based primarily on media reports, which he said were not necessarily very accurate. Do you still stick with your comment on the *World Economic Outlook* assessment, or are you now more optimistic about the Japanese economy?

KÖHLER: I can repeat what I said in the meetings and what I said in my speech to the National Press Club [see page 115]. The Japanese economy is a point of concern not only for Japan but particularly for Asia and also a wider concern for the global economy. But there are encouraging signs of a possible bottoming out, particularly in industry. The minister himself made clear that this is no reason for complacency and that they have a clear view of what kind of structural reforms they need to implement. This view does not differ from our view.

We need to be candid in saying that, in particular, banking restructuring, corporate restructuring, and rapid disposal of nonperforming loans are indispensable; the minister agrees with that. The minister underlined that he appreciates that the IMF is working with Japan. Japan has joined us in the Financial Sector Assessment Program. I think there is a clear work process—more awareness in Japan—so I don't think that we should be overly pessimistic about Japan.

QUESTION: It has been suggested that it is time to resume the allocation of SDRs. The Group of 24 also proposed that the rich countries allocate their portion of the SDRs to a special fund for development. Would you comment on both of these?

BROWN: The first issue was raised by the Group of 24, but it wasn't possible to discuss that today. The second issue has been proposed by several people, including George Soros. This is a debate that will continue. The important thing is that there are additional resources for the development of the economies and societies of the poorest countries. Whichever way the money is found, it is important that we do more. We are encouraged by the fact that the European Union has moved its commitment for development aid to 0.39 percent of its GDP by 2006 and that the U.S. government, just before the Monterrey conference, announced a $5 billion plan.

The discussions must now revolve around how we can make the existing commitments go further, and how we can persuade other countries to be part of additional commitments. The United Kingdom has pledged to increase the amount of aid as a proportion of national income that is provided over future years. The issue really comes back to a commitment from the individual members of the IMF and the World Bank. They must be prepared to make the additional resources available.

We discussed the Heavily Indebted Poor Countries (HIPC) Initiative today, and how we could move it forward. In a number of cases, debt sustainability remains an issue, and we asked the IMF and the World Bank to review the situation. So not only are we aware of our long-term commitments to realize the Millennium Development Goals of 2015, but we also must make sure that the HIPC Initiative—for which I congratulate the Managing Director in ensuring that 26 countries are now part of it—must be in a position to move forward to achieve its aim, which is to allow a sustainable exit from debt.

KÖHLER: I would like to add that we should first appreciate the outcome of the Monterrey Conference on Financing for Development, which brought a pledge from countries for more financing. On the other hand—and this was a strong point I reiterated in the discussions today in the committee—we should not lose sight of the fact that more important than official development aid is trade. I am constantly working on this point.

In all this discussion about more finance—be it SDRs, the Tobin tax, or official development aid—there is a risk that the debate is distracting attention from the fact that it is more important than ever that we get a breakthrough for better trade—particularly better trade opportunities for the low-income countries. And that means two things: better market access and a more rapid phasing out of trade-distorting subsidies in the advanced world, and more efforts by poor countries to exploit trade among themselves. Our historical obligation is now to make trade a vehicle for growth. I see this also in the context of these global imbalances that, on the one hand, capital accounts, particularly in Latin America, had been opened relatively rapidly, but the trade expansion was not as rapid. The consequence is an imbalance between debt service and the possibility of earning the revenue for the debt service. ■

The Japanese economy is a point of concern not only for Japan but particularly for Asia and also a wider concern for the global economy. But there are encouraging signs of a possible bottoming out, particularly in industry.
—Horst Köhler

Development Committee communiqué

New partnership for development welcomed, ministers take steps on education for all

Following is the text of the communiqué issued by the Development Committee after its meeting on April 21 in Washington, DC.

We met today to discuss future challenges for development and an action plan for universal primary education.

We welcomed the very important progress achieved in the Monterrey Consensus, laying out a new partnership compact between developed and developing countries, based on mutual responsibility and accountability, to achieve measurable improvements in sustainable growth and poverty reduction. We recognized the efforts of the World Bank and the IMF, working together with the UN, in contributing to this result. We look forward to their continuing collaboration and to strengthening this new partnership as we work toward a successful World Summit on Sustainable Development.

This new partnership for development recognizes that country-owned and -driven development strategies embodying sound policies and good governance have to be the starting point. Such strategies need to be supported by increased and more effective development assistance and by greater efforts to integrate developing countries into the global economy. We are committed to the implementation of these strategies and partnerships, such as the New Partnership for African Development, as part of the scaling up of activities that is necessary for implementing the Monterrey Consensus and to meet the Millennium Development Goals from the UN Millennium Declaration, endorsed by heads of state and government in the UN General Assembly on September 8, 2000; we will regularly review progress at future meetings. We welcomed the pledges made at the Monterrey conference by a number of donors to increase their official development assistance.

Development Committee chair Trevor Manuel (center) addresses the press, with World Bank President James Wolfensohn and IMF First Deputy Managing Director Anne Krueger.

The comprehensive development framework/poverty reduction strategy paper (PRSP) approach is increasingly providing a common foundation for implementing the new partnership at the country level. While recognizing that scope for improvement exists, we shared the positive assessment of implementation to date, particularly in enhancing ownership. We look forward to continued progress in extending the participatory processes for the elaboration and monitoring of PRSPs; implementing pro-poor growth policies; enhancing collaboration to strengthen public expenditure management and to improve poverty and social impact analysis; and, among multilateral and bilateral development agencies, better aligning their programs with country strategies.

We reaffirmed our strong support for the current work program to harmonize operational policies and procedures of bilateral and multilateral agencies so as to enhance aid effectiveness and efficiency. We committed to further action in streamlining such procedures and requirements over the period leading to the high-level forum scheduled for early 2003.

Evidence demonstrates that effective assistance in support of good policies and institutions can bring important development benefits. More attention should be given to the building of institutions and capacities as well as the timing and sequencing of the reform process. We underlined the importance of an enhanced focus on results that can be used by countries in designing and implementing their strategies, and by donors and development agencies in scaling up and allocating their support. We asked the World Bank to report to us at our next meeting on its efforts in this respect. We would also welcome a report on efforts under way to engage more effectively with weak-performing low-income countries.

Economic growth requires a strong and vibrant private sector and an enabling climate that encourages investment, entrepreneurship, and job creation. However, it is not enough to strengthen the private sector in developing countries without further progress in integrating them into the global trading system. We thus strongly endorsed the call at the Monterrey conference for coherence between development assistance and trade policies. We urged an acceleration of efforts to lower trade barriers (including trade-distorting subsidies), and we called upon the World Bank and others to provide more support in helping developing countries address policy, institutional, social, and infrastructure impediments limiting their ability to share in the benefits of trade.

Education is one of the most powerful instruments for reducing poverty. We strongly endorsed the action plan presented by the World Bank as a basis for reaching international consensus to help make primary education a reality for all children by 2015. We appreciated in particular that the action plan is consistent with the new partnership for development based on mutual responsibility and accountability. We called on the World Bank to continue to work in partnership with the UN Educational, Scientific, and Cultural Organization and other relevant agencies. We encourage all countries to place education at the heart of their poverty reduction strategies, reform their education policies to achieve Universal Primary Completion, and monitor progress toward the 2015 education goals in line with an enhanced focus on results. We committed ourselves to work together in a much more coherent way to help bring this about and to provide the necessary additional domestic and external resources. The World Bank and all other stakeholders should strengthen their efforts to achieve the Millennium Development Goals on gender equality in primary and secondary education by 2005. We will review progress at our next meeting.

We reviewed and welcomed the steady progress that has been made on the Heavily Indebted Poor Countries (HIPC) Initiative. We remain committed to its vigorous implementation and full financing. Our objective remains an early and enduring exit from unsustainable debt for HIPCs. We noted that, within existing guidelines, additional relief can be provided at the completion point, on a case-by-case basis. Success will require a sustained commitment by HIPCs to improvements in policies and debt management and by the donor community to continue to provide adequate and appropriate concessional financing. We will discuss the issue of debt sustainability and, consequently, financing and policy implications at the next meeting.

Finally, we reviewed a progress report on combating money laundering and terrorist financing. Recognizing the serious risks posed by these activities, we welcomed the action plans agreed by the World Bank and the IMF and the enhanced collaboration with other institutions. We encouraged the World Bank and the IMF to continue to integrate these issues into their diagnostic work in line with their respective mandates and urged that capacity building assistance be increased so that countries could better address these issues. ■

Indian Finance Minister Yashwant Sinha greets Clare Short, the United Kingdom's Secretary of State for International Development.

Group of Seven statement

Ministers act on terrorist financing, debt crises in emerging markets

Following is the statement issued by the finance ministers and central bank governors of the Group of Seven on April 20 in Washington, DC.

We met last night and today, with prospects for the global economy more positive than a few months ago. This is in part a tribute to strengthened international cooperation. We discussed the global economy, international efforts to combat the financing of terrorism, approaches to financial crises, and the importance of more effective development assistance.

We remain strongly committed to combating the financing of terrorism, and we take note of the progress made in implementing our previous Action Plans. As a further and positive step forward in the war on terrorist financing, the Group of Seven finance ministers announced today the first Group of Seven joint designation of terrorist entities and the associated freezing of assets in the Group of Seven countries; the ministers encourage other countries to freeze these assets as well. We again urge all countries to participate in the Financial Action Task Force on Money Laundering self-assessment and to implement quickly the Financial Action Task Force recommendations against terrorist financing. We look forward to the report of the IMF on the efforts it and its member countries are making to combat the financing of terrorism. We urge the IMF and the World Bank to begin conducting their financial sector assessments, incorporating reports on compliance with anti–money laundering and terrorism financing standards based on Financial Action Task Force recommendations. We are working to ensure that legitimate institutions, organizations, and networks are not misused by terrorists and their supporters.

The Group of Seven Finance ministers and central bank governors conferred in Washington. Joining them were (bottom row, left) Rodrigo de Rota, Spain's Minister of the Economy, who represented the European Union, and (top row, from left) Wim Duisenberg, President of the European Central Bank, and Horst Köhler, Managing Director of the IMF.

Economic recovery from the slowdown is under way, supported by appropriate and proactive macroeconomic policies that were in part a response to the tragic events of September 11, but downside risks remain, including those arising from oil markets.

Each of us has an ongoing responsibility to implement sound macroeconomic policies and structural reforms to sustain recovery and support strengthened productivity growth in our economies. We welcome the work programs of the Financial Stability Forum and International Accounting Standards Board responding to financial and related vulnerabilities. We look forward to the Financial Stability Forum report by September. We will continue to monitor exchange markets closely and cooperate as appropriate. We welcomed Russia's continued strong economic growth, progress in implementing key reforms, and work toward World Trade Organization accession.

Many emerging markets and developing economies are also now showing clear signs of recovery, building on improved economic policies. Better availability and clarity of information furnished to markets have enabled market participants to better assess and differentiate across economies the fundamental causes of market developments. The situation in Argentina is of serious concern. Reforms of the fis-

Group of Seven Action Plan

We, the Group of Seven finance ministers and central bank governors, have today adopted an integrated Action Plan to increase predictability and reduce uncertainty about official policy actions in the emerging markets. The Action Plan is part of an overall endeavor whereby the sovereign debt of all countries would ultimately be investment grade, a rating that every country could eventually achieve with the right policies. The Action Plan would help prevent financial crises and better resolve them when they occur, thereby creating the conditions for sustained growth of private investment in emerging markets and helping raise living standards of the people in emerging market countries. We pledge to work together to carry out this Action Plan. The plan comprises the following elements that are complementary and reinforce each other.

We will work with emerging market countries and their creditors to implement a market-oriented approach to the sovereign debt restructuring process, in which new contingency clauses would be incorporated into debt contracts. These new clauses should describe as precisely as possible what would happen in the event of a sovereign debt restructuring. The clauses should include supermajority decision-making by creditors; a process by which a sovereign would initiate a restructuring or rescheduling—including a cooling-off, or standstill, period—and a description of how creditors would engage with borrowers. Within these parameters, we will work with borrowers and creditors to make the clauses as effective as possible, examining such issues as aggregation, new private lending, and treatment of existing debt. We will also work with the IMF on incentives for countries with IMF programs to adopt such clauses.

With this market-oriented approach to the sovereign debt restructuring process, we are prepared to limit official sector lending to normal access levels except when circumstances justify an exception. It is becoming clearer that official sector support is being limited. Limiting official sector lending and developing private sector lending are essential parts of our Action Plan.

We will work with the IMF to improve the quality, transparency, and predictability of official decision making as a key means of crisis prevention. Specific actions include a more preemptive analysis of debt sustainability using market-based measures of creditworthiness, a consideration of a greater degree of independence between the surveillance or analysis role and the lending role at the IMF, and a clarification of the IMF's lending into arrears policy.

We support further work by the IMF on proposed approaches to sovereign debt restructuring that may require new international treaties, changes in national legislation, or amendments of the Articles of Agreement of the IMF. Since these changes would take time, this work should not delay the expeditious implementation of the approach described above; indeed, this work is complementary.

We emphasize that this Action Plan should increase the incentives for governments to pay their debts in full and on time. These incentives, which include the benefit of continued market access at reasonable interest rates, should remain.

cal framework encompassing the provinces, establishing a monetary anchor, and improving the bankruptcy and economic subversion laws will all help to restore investment and growth, thereby raising the living standards of the Argentine people. We thus support the IMF and the work it is doing with Argentina.

In February, we committed ourselves to making the crisis management framework more predictable and fair. Today, we announced an Action Plan [see page 128] to improve stability, growth, and potential living standards in emerging markets. Rapid progress in the weeks and months ahead is essential. We will review progress at our next meeting.

We affirmed our strong commitment to advancing development and combating poverty in the poorest nations, including by linking greater contributions by developed nations to the adoption of good economic policies by developing countries. We recognize that official development assistance and private financing yield better results when used in a good policy environment and in support of sound policies, such as good governance, human capital investment, and private sector development. These are the essential ingredients for raising productivity growth and reducing poverty in developing nations. We are committed to increasing the effectiveness of bilateral and multilateral development assistance and to continuously monitoring and measuring its results. We also stressed the importance of continued trade liberalization, particularly in support of improving the effective participation of the poorest countries in the multilateral trading system. ■

Group of 10 communiqué

Ministers stress need for better resolution of debt crises

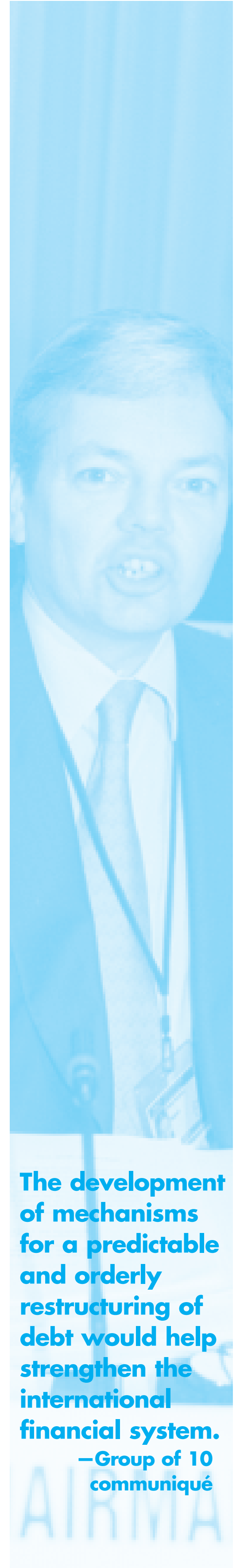
Following is the text of the communiqué issued by the Group of 10 after its meeting in Washington, DC, on April 21.

The finance ministers and central bank governors of the countries of the Group of 10 met in Washington, DC on April 21, 2002. The meeting was chaired by Didier Reynders, the Minister of Finance of Belgium and the current Chair of the Group of 10. Ministers and governors took note of reports from Henk Brouwer, Chair of the Deputies of the Group of 10; Mervyn King, Chair of Working Party No. 3 of the OECD [Organization for Economic Cooperation and Development]; and Andrew Crockett, General Manager of the BIS [Bank for International Settlements].

Ministers and governors discussed efforts to strengthen the operation of the international financial system and, in particular, actions that will help prevent, manage, and resolve international financial crises. In that context, they considered the question of debt sustainability and sovereign debt resolution procedures and noted its importance in the context of ongoing work in crisis prevention. They agreed that, going forward, improved assessment of debt sustainability was essential for developing a more rigorous analytic basis for making key judgments. In that context, they noted that assessments of debt sustainability had to be forward-looking and dynamic and needed to take account of factors such as economic policies, public and private sector deficits, interest rates, and economic growth. They underscored the importance of the credibility and coherence of the underlying economic policies, including the choice of an appropriate exchange regime. Ministers and governors looked forward to further discussion of these issues in relevant forums.

In discussing debt resolution procedures, ministers and governors reaffirmed the principle that debt contracts should be honored on time and in full. Nevertheless, circumstances may arise where this may not be possible. They noted that the development of mechanisms for a predictable and orderly restructuring of debt would help strengthen the international financial system. Such mechanisms should, in particular address problems that can delay and prolong restructuring, eroding the value of the claim and increasing the hardships of debtors. Ministers and governors agreed that they would be prepared to limit official sector lending to normal access levels except when circumstances justify an exception. They noted the importance of creating other appropriate incentives to use debt workout procedures, and recognized the contribution that such reforms could make to the accurate pricing of risk. In this context, they welcomed the efforts now under way to improve crisis resolution procedures.

The Group of 10 will initiate in-depth work on sovereign debt resolution mechanisms. This work will be carried out in an open fashion, in cooperation with other forums working on these issues, focusing on contractual issues, in particular collective action clauses. To enhance the efficiency of the approach of the Group of 10, a dialogue with market participants is foreseen. The Group of 10 will revisit this item during their autumn meeting. ■



The development of mechanisms for a predictable and orderly restructuring of debt would help strengthen the international financial system.
—Group of 10 communiqué

It remains unclear whether the balance of risks has moved decisively in the direction of a sustained recovery.
—Group of 24 communiqué

Group of 24 communiqué

Ministers worry about global recovery, call for better access to industrial markets

Following is the text of the communiqué of the Group of 24, issued on April 19 in Washington, DC.

Ministers of the Intergovernmental Group of 24 on International Monetary Affairs and Development held their sixty-seventh meeting in Washington, DC, on April 19. Mallam Adamu Ciroma, Minister of Finance of Nigeria, was in the chair, with Alain Bifani, Director-General of Lebanon's Ministry of Finance, as First Vice-Chair, and Senator Conrad Enill, Trinidad and Tobago's Finance Minister, as Second Vice-Chair. The meeting of the ministers was preceded on April 18 by the seventy-ninth meeting of the deputies of the Group of 24, with Iremiren of Nigeria as Chair.

Global economic prospects

Ministers note that, although the slowdown in the global economy appears to have been shallower and of shorter duration than previously forecast, it remains unclear whether the balance of risks has moved decisively in the direction of a sustained recovery, given, among other things, the political uncertainties in the international security area—especially the deteriorating situation in the Middle East—the persistent weakness in demand in Japan, and the lower growth performance in Europe relative to the United States. The uncertain, though improving, environment that is still facing emerging markets and other developing countries and the weak prospects for primary commodity prices further complicate the global outlook, particularly developing countries' prospects. In order to minimize the risks associated with the ongoing recovery, supportive macroeconomic policies should be maintained in the advanced economies, and, in particular, monetary policy should not be prematurely tightened. Furthermore, structural reforms to inject greater flexibility in product and labor markets are required, especially in Europe, as are far-reaching financial sector reforms in Japan.

Ministers note the trend decline in private saving in a number of advanced economies, especially in the United States, associated with the rapid rise in asset valuations. They are concerned about the continuation of this trend and call on the IMF to look closely at this issue, including in particular its implication for the availability of international financial resources and the cost of borrowing for developing countries. It should also examine the risks associated with persistent external imbalances among advanced economies, particularly a possible abrupt correction of major exchange rate misalignments.

Ministers express their serious concern about the continuation of depressed commodity prices, which have weakened growth and export performance and undermined the fight against poverty as well as financial sustainability in many developing countries. With regard to the oil market, they call for international cooperation to avoid undue oil price volatility, which is costly for both producing and consuming countries.

In light of the increased interdependence in the global economy, ministers underscore the role of multilateral surveillance and the need to increase its focus on the global impact of the policies of advanced economies and developments in major capital markets. This is particularly important because of the asymmetry with which the IMF influences policymaking in member countries.

Despite recent improvement in access to capital markets, net capital flows to developing countries remain well below their 1995–97 levels. This constrains these countries' growth performance and their ability to integrate into the global economy. It is therefore important to explore ways of improving access to financing in line with improvements in fundamentals, including through technical assistance from the IMF.

Ministers express their grave concern at the loss of innocent lives and the catastrophic situation in the Palestinian territories. They are greatly alarmed by the recent destruction of valuable capital infrastructure provided to the Palestinian people and Authority since 1993 by the international development community, including the World Bank. In this regard, ministers strongly welcome the World Bank's announcement regarding its intention to provide urgent assistance and to work closely with other donors and stakeholders to ensure that the wide-ranging needs of the Palestinian population, including infrastructure and institutional rebuilding, are met expeditiously.

Ministers express particular concern about the current risk of famines in several African countries and call on the international community to provide rapid and substantial support in order to avert a humanitarian crisis. Furthermore, there is a critical need to address within a global context the continued prevalence of HIV/AIDS in African countries.

Crisis prevention and resolution

Ministers note that globalization has led to greater vulnerability to external shocks and increased volatility of financial markets, thus underscoring the importance of effective crisis prevention mechanisms and the orderly resolution of crises, when they occur. They stress the need to consider voluntary, country-specific, and market-based approaches to crisis resolution, noting the ongoing work in the IMF and other forums. Consideration should be given to addressing the debt sustainability of middle-income heavily indebted countries.

Ministers note the unprecedented severity of the crisis in Argentina and the importance of helping the country to rebuild confidence rapidly for the return of growth and to promote regional stability. A prompt and satisfactory solution to the Argentine crisis is important for all emerging countries, particularly those of Latin America, and ministers urge the IMF to endorse the corrective policies being pursued and to expeditiously work with the authorities to complete a comprehensive program that could help unlock the support of the international community needed to resolve the current crisis.

Implementing the Monterrey Consensus

Ministers welcome the results of the recent International Conference on Financing for Development and the adoption of the Monterrey Consensus, in which the international community commits itself to cooperative action for economic and social development in order to raise living standards and combat poverty in developing countries. They emphasize that financial policies and instruments and the role of the international financial institutions are a central part of the consensus. In this regard, they stress the importance of following up on the understandings reached at the Monterrey conference, with an increased emphasis on the responsibility and accountability of donors, institutions, and recipient countries. Looking forward to the upcoming World Summit on Sustainable Development to be hosted in Johannesburg later this year, and the development of a program of action for sustainable development, including economic, social, and environmental development, ministers encourage continuation of a close dialogue among the IMF, the World Bank, the World Trade Organization, regional development banks, and the UN on financial and development matters. They welcome the Development Committee's intensified focus on these issues, with particular reference to the plight of Africa.

In order to create a favorable environment for development, ministers emphasize the need to enhance market access, especially in product and service areas where developing countries have a comparative advantage. Access to advanced economy markets is being constrained by their protracted application of trade-distorting measures, including especially the provision of about $1 billion a day in subsidies to agricultural products, which is equivalent to five times the total official development assistance. Ministers call for an early elimination of agricultural subsidies and a substantial reduction in advanced economy tariffs and other barriers to all developing countries' exports—including duty-free and quota-free access for the least developed countries.

Mallam Adamu Ciroma, Nigeria's Minister of Finance, chaired the sixty-seventh meeting of the Group of 24.

Ministers stress that effective participation by developing countries in the new round of multilateral trade negotiations is essential to ensure that the benefits of globalization reach all countries. In that regard, they call on the IMF and the World Bank to play an active role in coordinating trade-related technical assistance and capacity building.

Ministers welcome announcements by the European Union, the United States, and Canada to increase their official development assistance. They stress that the timetable for the delivery of this assistance should be accelerated, especially for the poorest countries. Ministers urge the developed countries that have not done so to make concrete efforts toward the official development assistance target of 0.7 percent of GNP, as this will be essential to cut poverty in half by 2015 and meet other Millennium Development Goals. To improve aid effectiveness, the "transaction costs" of aid delivery need to be reduced. Ministers consider essential the harmonization of bilateral and multilateral donor policies and procedures, the coordination of disbursement and delivery mechanisms, and the application of "common pooling" arrangements, whereby donors provide untied, direct budgetary support on the basis of programs developed under the leadership of the recipient country. Ministers welcome ongoing efforts by the World Bank to improve coordination in this direction with other multilateral and bilateral stakeholders.

Ministers underscore the need to study innovative sources of development finance. In this context, they reiterate their call for a swift implementation of the Fourth Amendment of the IMF's Articles of Agreement on the special, onetime allocation of SDRs and urge those countries that have not done so to ratify promptly the Fourth Amendment. Ministers also expressed support for the proposal that advanced

Ministers strongly support the New Partnership for Africa's Development, an initiative aimed at strengthening the continent's growth prospects, combating poverty, and enhancing governance.
—Group of 24 communiqué

economies donate their SDR allocation to an international development fund.

Ministers call for strengthened collaboration among the IMF, the World Bank, the United Nations agencies, and bilateral donors in order to develop mechanisms that meet the demand for technical assistance. They underscore the critical need for increased and better-coordinated bilateral and multilateral technical assistance for capacity building. Ministers welcome the World Bank's announcement that it will contribute regularly to support Group of 24 research activities and call on the IMF to support these activities in an equivalent manner.

Support for low-income countries

Ministers welcome the efforts made to better coordinate the assistance of bilateral donors and international financial institutions in the context of the poverty reduction strategy paper/comprehensive development framework (PRSP/CDF) process, thus enhancing the coherence and effectiveness of aid policies. They also express their support for regional efforts aimed at strengthening development frameworks and fostering greater country ownership of poverty reduction strategies and policies. In that regard, ministers strongly support the New Partnership for Africa's Development, an initiative aimed at strengthening the continent's growth prospects, combating poverty, and enhancing governance, notably through a strong partnership between governments, the private sector, and Africa's development partners.

Ministers note the recent review of the PRSP and of the Poverty Reduction and Growth Facility (PRGF) initiatives. They welcome the endorsement of the PRSP approach based on strong national ownership, broad-based participation, and strengthened national and international partnerships. Ministers call on all stakeholders to tackle the main challenges, including (1) the continuous participation of domestic stakeholders in the development and monitoring of PRSPs; (2) strengthening the content and implementation of PRSPs; (3) aligning donor strategies and assistance fully with recipient countries' priorities and budgetary implementation cycles; and (4) improving the monitoring and evaluation of the effectiveness of poverty reduction strategies. Greater efforts need to be made by the IMF and the World Bank to explore the sources of growth in low-income countries and deepen the systematic analysis of the poverty and social impact of major policy choices. Ministers support the greater, more open exchange of views between national authorities and IMF–World Bank staff on policy options and greater focus in IMF–World Bank research activities on issues of particular relevance to low-income countries, including policy responses to exogenous shocks. They also call on the IMF and the World Bank to continue to harmonize their efforts in order to avoid overlap in their activities and to minimize delays in the delivery of assistance.

While welcoming the progress under the Heavily Indebted Poor Countries (HIPC) Initiative, ministers express disappointment that, after six years of operation, only 5 out of 38 eligible countries requiring debt relief have reached the completion point and a number of creditors are not providing their share of debt relief. The cost of these delays is reflected in forgone real GDP growth, investment, employment, and poverty reduction in eligible countries. Moreover, owing to factors beyond their control—in particular, the recent global slowdown and the significant decline in commodity prices—many HIPCs may not be able to achieve debt sustainability at the completion point under the current HIPC Initiative guidelines. Ministers stress that there should be a shared responsibility to expedite the process: HIPCs should continue to do their utmost to implement sound policies and reforms that benefit their own economies, while the IMF and the World Bank and the rest of the international community should streamline and focus the conditions associated with debt relief, demonstrate greater flexibility, and provide additional resources and topping up of assistance where necessary, as well as additional technical assistance to help countries build capacity for policy implementation.

Ministers commend those countries that have pledged loan resources to allow adequate financing of PRGF operations during the interim period and encourage the IMF and the World Bank to keep under review all the financing issues related to the PRGF and HIPC Initiative.

Postconflict HIPC-eligible countries face particularly difficult challenges in achieving peace and pursuing sound policies, especially owing to major institutional and infrastructure disruptions, a lack of technical and administrative capacity, and a large displacement of their populations. Therefore, ministers emphasize that, in order to expedite the delivery of debt relief, utmost flexibility should be exercised in bringing these countries to their decision points, and the reconstruction and rehabilitation efforts carried out with UN agencies' assistance should count toward the determination of their decision point track record. They welcome the contributions made by several countries to subsidize the IMF's postconflict emergency assistance and encourage additional pledges by other members.

Education for All

Recognizing that effective universal primary education is fundamental for sustained human and economic development, ministers welcome the constructive partnership of the World Bank with the UN Educational, Scientific, and Cultural Organization and other appropriate agencies aimed at meeting the goals of universal primary education and elimination of gender disparities. They consider that necessary efforts in developing countries with educational deficits should be supported by the World Bank through technical assistance for capacity building, public spending reviews for effective use of resources, and data enhancements to appropriately monitor educational progress, and by catalyzing efficient and timely budgetary support for Education for All where needed.

Combating money laundering and the financing of terrorism

Ministers reaffirm their support for international and national efforts to combat money laundering and the financing of terrorism. However, they stress that the role of the IMF and the World Bank should be consistent with their mandates and core areas of expertise and that they should not become involved in law enforcement matters. Assessing the implementation of any internationally agreed standards should take into account each country's capabilities and stage of financial development. Any involvement of the Financial Action Task Force (FATF) in assessments conducted by the IMF and the World Bank should remain conditional on the FATF's convergence to the Reports on the Observance of Standards and Codes' principles, which call for a voluntary, cooperative, and uniform approach. Additional technical assistance is critical in helping developing countries strengthen their financial systems and regulatory frameworks. It is important that more developing countries be appropriately represented in the FATF and other relevant bodies.

Conditionality

Ministers welcome the progress being made at the initiative of the Managing Director of the IMF in strengthening national ownership of reform programs and in streamlining conditionality associated with the use of IMF resources, basing it to a greater degree on practical outcomes rather than on the implementation of intermediate target variables or specific prior actions. Developing countries recognize the importance of continuing to make progress in achieving macroeconomic stability and introducing effective regulation and supervision of their financial sectors. Ministers emphasize, however, that the IMF focus on critical macroeconomic and structural conditions should not result in shifting conditionalities to the World Bank and regional development banks, as that would leave unchanged the overall burden of conditionality, thereby undermining the sense of national ownership that is essential for the successful implementation of programs.

IMF Executive Directors Wei Benhua (left) and A. Shakour Shalaan (center) greet Mahmoud Abdul-Eyoun, Egypt's Central Bank Governor.

Quotas and general SDR allocation

Ministers note that the IMF has commenced discussions on the Twelfth General Review of Quotas, which in their view should result in an increase in the total size of the IMF's financial resources, thereby strengthening its role in crisis prevention and resolution. The review should also lead to an increase in developing countries' aggregate quota share, thereby improving their voting power in the IMF. Also, the number of basic votes should be increased. Improved representation of developing countries in the decision-making structures of the IMF and the World Bank should be an integral part of the new international financial architecture within a globalized world economy. It would reflect, among other things, the increased share of developing countries in global trade and strengthen the accountability and representativeness of the institutions. Ministers reiterate their call for an enhancement of the capacity of African member countries to represent their interests more effectively in the IMF and the World Bank.

Ministers reiterate their call for a general allocation of SDRs to meet the increased demand for reserves—particularly in the context of higher volatility in international capital markets, which leads to substantially higher costs in acquiring and holding reserves. They recall that, despite large fluctuations in international liquidity, there has not been a decision in favor of a general allocation of SDRs in the past 25 years. ■

African finance ministers' press conference

Trade and foreign direct investment are crucial to sustainable development

Following are edited excerpts from a press conference given on April 20 by a group of African finance ministers and central bank governors. The IMF's External Relations Department has been organizing press conferences with African ministers of finance over the past four years during its spring and Annual Meetings to give African member countries' representatives the opportunity to express their views on issues of interest to their countries. The ministers also met with the heads of the IMF and the World Bank. Participating in the press briefing were Daudi Ballali, Governor of the Central Bank of Tanzania; Paul Bouabre, Minister of Finance for Côte d'Ivoire; Emmanuel Kasonde, Minister of Finance for Zambia; Yaw Osafo-Maafo, Minister of Finance and Economy for Ghana; and Jean-Claude Masangu Mulongo, Governor of the Central Bank of the Democratic Republic of Congo.

QUESTION: The UN's Millennium Development Goals currently are not on track to be achieved by the 2015 target date. Early in the spring meetings, James Wolfensohn, President of the World Bank, put forward a concrete proposal to address one of these goals: to seek to ensure a primary school education for all children by 2015. He also said the World Bank, in particular, might need to change its approach to one that measures all of its development work against the Millennium Goals instead of measuring projects against their own specific goals. What do you think could be done to catch up and make progress toward these goals by 2015?

Meeting with the press (left to right) are Daudi Ballali, Jean-Claude Masangu Mulongo, Yaw Osafo-Maafo, Lucie Mboto Fouda (IMF Press Officer), Paul Bouabre, and Emmanuel Kasonde.

BOUABRE: For us Africans, poverty reduction is crucial. To this end, African economies must be able to create wealth. We must implement all required measures to improve our countries' macroeconomic frameworks. There are examples of countries that have succeeded in improving their macroeconomic frameworks, so I do not see why other countries would not be able to do it.

But improving the macroeconomic framework is not enough. Each African country must carefully review the essential sectors of its economy and implement structural reforms for a regulatory framework that will provide the flexibility needed for economic growth and prosperity. If we manage to meet these two criteria, I believe we will have set up the required internal conditions for wealth creation. But still more must be done to eradicate poverty.

In order to obtain strong, lasting results, developed economies should work to help African countries raise their income levels. While official development assistance is important, it will not provide the sustainable development that Africa needs. To significantly improve income levels and revenues in African countries within the context of globalization, African countries' exports require greater access to the large markets in Europe and the United States.

Moreover, it is not acceptable that Africa should be marginalized in attracting its share of foreign capital. By implementing structural reforms and improving the macroeconomic framework, we will have put in place the necessary conditions to attract foreign capital to Africa.

QUESTION: These meetings provide a forum for developed countries to announce and take credit for their new commitments to increase aid flows while criticizing developing countries for not opening their markets to trade quickly enough. Yet Mr. Wolfensohn said yesterday that developed countries spend $50 billion on official development assistance every year and as much as $350 billion on trade protection. Do you view rich countries' stance on aid and trade at these meetings as hypocritical?

OSAFO-MAAFO: The figures you cite highlight the importance of trade and the fact that providing market access to African exports is key to our development. Let's take the case of cocoa in Ghana. We are able to sell cocoa beans to Europe on a duty-free basis. But when we sell cocoa butter and chocolate, these products are subject to tariffs. Obviously, these discriminatory trade policies do not help Ghana develop domestic processing industries. This is the kind of unfairness that must be addressed. The discussions in Monterrey made clear that Africa needs fair trade, with aid increases as supplementary.

There is also an important link here with foreign direct investment—essential for acquiring the technology to develop the processing capabilities needed for higher value-added goods that will be competitive on international markets. It is not aid that purchases these goods. The entire international community must press for measures and reforms that increase foreign direct investment flows to African countries, followed up with fair trade policies.

QUESTION: Do you feel the momentum for an African renaissance has been totally eclipsed by the Middle East conflict and the fight against terrorism, with international attention shifting to reconstruction priorities in Afghanistan and the Middle East?

MASANGU MULONGO: Obviously, there is a lot of concern at the moment, with international attention perhaps having shifted away from Africa and elsewhere to Afghanistan and the Middle East.

This should not discourage us. We know what we must do, and we are doing what we must do. It is also up to us to develop good and efficient means of communication to boost international awareness of African countries' strengths, assets, and potential as future sites for foreign direct investment. This conference gives one such boost to African countries' visibility: this is the fourth year that this conference has been held as part of the spring meetings as a forum for African financial officials to discuss African issues as they relate to the global economy.

QUESTION: How would you respond to the claims of the demonstrators outside the meetings that the IMF and the World Bank are the "worst enemies" of the world's poor?

OSAFO-MAAFO: I think it is a good thing that people are free to express their views and their opinions. Certainly, these demonstrators have good intentions in that their basic concern is with the poverty in evidence around the world, particularly in Africa. We are fighting poverty, but how quickly? As far as I am concerned, these demonstrations are important because they tend to turn our consciences and attention toward the reality of the poverty situation. At the same time, the demonstrators may not be fully aware of all the current facts on the ground with respect to what the IMF and the World Bank are both doing to fight poverty. So we need to better inform the demonstrators of the progress that is being made. But the overriding message is that we must fight poverty faster than we are fighting it now.

KASONDE: I would like to inform the demonstrators that the world is a better place *with* the IMF and the World Bank than *without* them, and that it would behoove the demonstrators to take a more constructive approach. If they can come up with better ideas for improving the current international financial architecture, we are all listening. We are all reading their placards, and we are all thinking people. ■

I would like to inform the demonstrators that the world is a better place *with* the IMF and the World Bank than *without* them.
—Emmanuel Kasonde

Photo credits: Denio Zara, Padraic Hughes, Pedro Márquez, and Michael Spilotro for the IMF; Staton R. Winter for AFP, pages 138 and 139.

Members' use of IMF credit
(million SDRs)

	During March 2002	January–March 2002	January–March 2001
General Resources Account	150.00	7,909.22	3,499.58
Stand-By	150.00	7,633.98	3,440.78
SRF	0.00	0.00	2,349.57
EFF	0.00	275.24	58.80
CFF	0.00	0.00	0.00
PRGF	65.42	116.13	167.29
Total	215.42	8,025.35	3,666.87

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

Data: IMF Treasurer's Department

Selected IMF rates

Week beginning	SDR interest rate	Rate of remuneration	Rate of charge
April 8	2.30	2.30	2.70
April 15	2.27	2.27	2.67
April 22	2.27	2.27	2.67

The SDR interest rate and the rate of remuneration are equal to a weighted average of interest rates on specified short-term domestic obligations in the money markets of the five countries whose currencies constitute the SDR valuation basket. The rate of remuneration is the rate of return on members' remunerated reserve tranche positions. The rate of charge, a proportion of the SDR interest rate, is the cost of using the IMF's financial resources. All three rates are computed each Friday for the following week. The basic rates of remuneration and charge are further adjusted to reflect burden-sharing arrangements. For the latest rates, call (202) 623-7171 or check the IMF website (www.imf.org/cgi-shl/bur.pl?2002).

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

Data: IMF Treasurer's Department

Initiative seeks reduced poverty, higher growth for Commonwealth of Independent States

Economic advancement is critical for reducing poverty and for fostering peace and security in the region.
—World Bank, ADB, EBRD, and IMF

Following is the text of a joint press release issued by the World Bank, the Asian Development Bank (ADB), the European Bank for Reconstruction and Development (EBRD), and the IMF on April 20.

At their meeting today in Washington, ministers lent their support to an initiative to help the seven low-income countries of the Commonwealth of Independent States (CIS-7)—Armenia, Azerbaijan, Georgia, the Kyrgyz Republic, Moldova, Tajikistan, and Uzbekistan—accelerate poverty reduction and economic growth, while ensuring sustainable fiscal and external debt positions. The initiative, sponsored jointly by the World Bank, the IMF, the ADB, and the EBRD, rests on the CIS-7 countries intensifying—and assuming more ownership over—their development and reform efforts. At the same time, the international community is prepared to provide support to countries following strong reform policies.

The initiative was first proposed at a two-day seminar held in London on February 21–22, hosted by the U.K. government and sponsored jointly by the World Bank, the IMF, the ADB, and the EBRD. Participants at the London seminar included representatives of the CIS-7 governments, creditor countries, and international agencies.

Background

Following the breakup of the Soviet Union, the CIS-7 countries faced a triple challenge: to build new states, democratic institutions, and market economies. During the past 10 years, most of these countries have made considerable progress toward meeting these goals, but the unfinished agenda remains substantial, and living standards have fallen sharply.

In hindsight, the CIS-7 countries and the international community underestimated the impact of the breakup of the Soviet Union and the complexity of the transition challenges facing these countries. Moreover, these countries' reform strategies were not always appropriate or effectively implemented. As a result of the ensuing economic collapse, nearly 20 million people in the CIS-7 countries continue to live in extreme poverty. Economic advancement is critical for reducing poverty and for fostering peace and security in the region.

Participants' roles

Primary responsibility for addressing these problems lies with the CIS-7 countries themselves. But the initiative calls for representatives of the international community to provide strong complementary support in helping these countries strengthen the conditions for growth, poverty reduction, and debt sustainability—both through international and regional institutions and through governments acting bilaterally.

While each country faces its own set of problems, they all face common challenges. Under the initiative, the CIS-7 countries would undertake reforms to

- promote policy and institutional reform more consistently and resolutely, within the framework of fully participatory poverty reduction strategies;
- strengthen the capacity of their governments, build greater public accountability, and strive to reduce corruption;
- ensure macroeconomic stability, promote the transparency of public finances, strengthen tax collection, and adopt appropriate policies (including debt management policies) to ensure that debt levels are sustainable;
- implement growth-promoting structural reforms, including energy sector reform (through unbundling, setting tariffs that reflect costs, and eliminating arrears and noncash settlements), maintaining open trade regimes, and creating a favorable investment climate to encourage the growth of small and medium-sized enterprises;
- target scarce resources to priority social services and safety nets, including by ensuring the adequate provision of health and education services and by acting now to counter the problems of HIV/AIDS, tuberculosis, malaria, and drug trafficking and abuse; and
- work with their neighbors, with the support of the international community, to resolve conflicts and foster regional cooperation, especially in trade and transit, water, and energy.

The role of trade and development partners and creditors under the initiative would be to extend support to those CIS-7 countries implementing strong reforms. Such assistance would take the form of

- more concessional financial support, as well as debt restructuring or debt relief where needed, in conjunction with strong reform programs, so that resources are well used;
- increased access for CIS-7 countries to industrial countries' markets and promotion of direct investment;
- improved coordination between development agencies, anchored in country-led poverty reduction programs; and
- added support from international and regional institutions through technical assistance, policy advice,

and concessional financial assistance (including grants) in support of the reform efforts of the CIS-7 countries.

Next steps

The next steps under the initiative will involve stronger reforms by the CIS-7 countries in an environment of greater international visibility, improved regional cooperation through partnership events, and international support for reform by countries pursuing appropriate policies. This press release, and the statement endorsed by the ministers during the meeting, will be posted on the websites of the four cosponsoring institutions. (See the IMF's website (www.imf.org) for the full text of the statement; the World Bank's website (www.worldbank.org/cis7) also contains background documentation, as well as a Russian translation of the press release and statement.)

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

Member	Date of arrangement	Expiration date	Amount approved	Undrawn balance
			(million SDRs)	
Stand-By				
Argentina[1]	March 10, 2000	March 9, 2003	16,936.80	7,180.49
Brazil[1]	September 14, 2001	December 13, 2002	12,144.40	8,468.82
Bulgaria	February 27, 2002	February 26, 2004	240.00	208.00
Croatia	March 19, 2001	May 18, 2002	200.00	200.00
Gabon	October 23, 2000	April 22, 2002	92.58	79.36
Latvia	April 20, 2001	December 19, 2002	33.00	33.00
Lithuania	August 30, 2001	March 29, 2003	86.52	86.52
Peru	February 1, 2002	February 29, 2004	255.00	255.00
Romania	October 31, 2001	April 29, 2003	300.00	248.00
Serbia/Montenegro	June 11, 2001	May 31, 2002	200.00	50.00
Sri Lanka	April 20, 2001	June 19, 2002	200.00	96.65
Turkey[1]	February 4, 2002	December 31, 2004	12,821.20	5,494.80
Total			**43,509.50**	**22,400.64**
EFF				
Colombia	December 20, 1999	December 19, 2002	1,957.00	1,957.00
Indonesia	February 4, 2000	December 31, 2003	3,638.00	2,201.96
Jordan	April 15, 1999	April 14, 2002	127.88	60.89
Ukraine	September 4, 1998	September 3, 2002	1,919.95	726.95
Total			**7,642.83**	**4,946.80**
PRGF				
Armenia	May 23, 2001	May 22, 2004	69.00	59.00
Azerbaijan	July 6, 2001	July 5, 2004	80.45	64.35
Benin	July 17, 2000	July 16, 2003	27.00	12.12
Bolivia	September 18, 1998	June 7, 2002	100.96	37.10
Burkina Faso	September 10, 1999	September 9, 2002	39.12	11.17
Cambodia	October 22, 1999	February 28, 2003	58.50	16.72
Cameroon	December 21, 2000	December 20, 2003	111.42	63.66
Chad	January 7, 2000	January 6, 2003	47.60	18.40
Cote d'Ivoire	March 29, 2002	March 27, 2005	292.68	292.68
Djibouti	October 18, 1999	October 17, 2002	19.08	10.00
Ethiopia	March 22, 2001	March 21, 2004	100.28	65.52
Georgia	January 12, 2001	January 11, 2004	108.00	81.00
Ghana	May 3, 1999	November 30, 2002	228.80	52.58
Guinea	May 2, 2001	May 1, 2004	64.26	51.41
Guinea-Bissau	December 15, 2000	December 14, 2003	14.20	9.12
Honduras	March 26, 1999	December 31, 2002	156.75	48.45
Kenya	August 4, 2000	August 3, 2003	190.00	156.40
Kyrgyz Republic	December 6, 2001	December 5, 2004	73.40	61.68
Lao People's Dem. Rep.	April 25, 2001	April 24, 2004	31.70	22.64
Lesotho	March 9, 2001	March 8, 2004	24.50	14.00
Madagascar	March 1, 2001	February 29, 2004	79.43	56.74
Malawi	December 21, 2000	December 20, 2003	45.11	38.67
Mali	August 6, 1999	August 5, 2003	51.32	19.65
Mauritania	July 21, 1999	July 20, 2002	42.49	12.14
Moldova	December 21, 2000	December 20, 2003	110.88	92.40
Mongolia	September 28, 2001	September 27, 2004	28.49	24.42
Mozambique	June 28, 1999	June 27, 2002	87.20	25.20
Niger	December 22, 2000	December 21, 2003	59.20	33.82
Pakistan	December 6, 2001	December 5, 2004	1,033.70	947.54
Rwanda	June 24, 1998	April 30, 2002	71.40	9.52
São Tomé & Príncipe	April 28, 2000	April 27, 2003	6.66	4.76
Senegal	April 20, 1998	April 19, 2002	107.01	19.54
Sierra Leone	September 26, 2001	September 25, 2004	130.84	74.67
Tanzania	April 4, 2000	April 3, 2003	135.00	55.00
Vietnam	April 13, 2001	April 12, 2004	290.00	207.20
Zambia	March 25, 1999	March 28, 2003	254.45	149.63
Total			**4,370.88**	**2,918.90**
Grand total			**55,523.21**	**30,266.34**

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

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

IMF approves $1 billion drawing for Turkey

Turkey is striving to turn around its economy after decades of weak performance and to address deep-rooted structural problems that remain a drag on growth. These structural issues are the focus of a new reform effort undertaken with the support of a three-year Stand-By Arrangement, approved on February 4, for a total amount of SDR 12.8 billion (about $16 billion). On April 15, the IMF's Executive Board completed its first review of Turkey's economic performance under the Stand-By credit, enabling the country to draw up to SDR 867.6 million (about $1 billion) immediately.

After the Executive Board discussion, Anne Krueger, IMF First Deputy Managing Director and Acting Chair, said: "The Turkish authorities have made considerable progress in implementing their ambitious economic reform program. In the past, financial indiscipline and structural weaknesses had prevented Turkey from realizing its economic potential and created an environment of highly volatile growth and inflation over several decades. The program addresses these weaknesses and should reduce the vulnerability of the economy to shocks. It represents a further decisive step away from the interventionist policies of the past and will lay the groundwork for a more consistent economic performance in the future.

"In this regard, the positive momentum of macroeconomic adjustment and structural reform that the authorities have maintained since last fall has been encouraging. The authorities' efforts have been rewarded by a substantial decline in interest rates, a strong balance of payments position and an associated appreciation of the Turkish lira, and a drop in inflation and in inflation expectations. Despite these positive developments, downside risks remain. In particular, the timing and strength of the recovery in output are as yet uncertain, and financial markets remain alert to the possibility of further shocks. Unwavering implementation of the program with the undivided support of the government coalition is needed to bring the Turkish economy onto a sustainable growth path.

"Fiscal developments remain on track, but strict budget implementation must continue to ensure debt sustainability. While the authorities remain firmly committed to the target of a public sector primary surplus of 6.5 percent of GNP for 2002, they need to remain mindful of possible downside implementation risks and stand ready to take further offsetting measures to safeguard the primary surplus target.

Macroeconomic policies have remained on course, and the government has continued to press ahead with structural reform.
—Anne Krueger

"To be sustainable, the achievement of the overall budget targets will need to be underpinned by decisive reforms in public employment and budget mechanisms. In this regard, efforts to improve expenditure management, streamline tax policy, and strengthen revenue administration are encouraging. On the tax side, it will be important to avoid complicating the tax code with additional incentives. On the expenditure side, credible estimates of overstaffing in state economic enterprises are required to lay the basis for the much-needed downsizing in this sector.

"The scope for monetary policy to promote disinflation and enhance confidence is increasing. One avenue is a move to inflation targeting, which could help further anchor inflation expectations. In this regard, recent inflation developments are encouraging. Regarding reserve management, the authorities' efforts to make use of the better-than-expected balance of payments developments to build up foreign exchange reserves through preannounced foreign exchange purchase auctions are appropriate and should further improve confidence. Further development of the money and foreign exchange markets is needed to help ensure a smoother functioning of the floating exchange rate regime. The authorities' plans to lower distortionary taxes and reform the system of reserve requirements are welcome. The central bank has made good progress in improving transparency, including through improvements in financial reporting, internal controls, and the external audit process.

"More even progress is needed in the structural areas. The progress in banking sector reform, including the implementation of the bank recapitalization plan, is welcome, but corporate debt restructuring should be accelerated. Moving forward, the integrity and transparency of the bank recapitalization process and the independence of Turkey's regulatory institutions should be maintained. Renewed impetus should be given to privatization now that market conditions are more favorable, and the government should forcefully demonstrate its commitment to dealing with deficiencies in the investment environment and improving governance." ■

The full text of IMF News Brief 02/32 is available on the IMF's website (www.imf.org). Also available is IMF Public Information Notice No. 02/46, "IMF Concludes 2002 Article IV Consultation with Turkey.

Turkey teleconference

Turkey's program aims to build confidence, boost growth

On April 16, Michael Deppler, Director of the IMF's European I Department, held a teleconference with the press on the Executive Board discussion of the Turkish economy and the IMF's approval of $1 billion for Turkey under a Stand-By credit. Below are edited excerpts of that exchange.

QUESTION: The IMF's Executive Board emphasized the need for "unwavering implementation of the program with the undivided support of the government coalition." What are the IMF's concerns?

DEPPLER: This line about "unwavering implementation" is not a new line and has nothing to do with the immediate situation. We are into a phase of the program where structural issues loom quite large, as opposed to macroeconomic issues. I would emphasize that structural issues have been there in the past, and we have landed on our feet. We expect that to continue.

QUESTION: Does the Board have any concerns that the growth rate targeted for this year may not be achieved?

DEPPLER: The staff is fairly clear, and I think the Board would agree, that at present the risks to the growth target are on the downside. The output figures for the fourth quarter of 2001 were weaker than we had projected, and as a result of this, the estimate of 3 percent for this year is still feasible, but more ambitious than it used to be. But this program is about restoring confidence, and that increase in confidence is laying the basis for growth now and in the future. I do think we see the restoration of confidence. This is very much what you see in financial markets, but we are also beginning to see it in some of the consumer expectations where things have stabilized, and we see some grounds for expecting things to improve looking forward.

QUESTION: From the market, I hear a concern about growth and how Turkey might be falling into a kind of Argentina trap. Is there some thought on your side of trying to prime the pump a little bit to overcome this?

DEPPLER: Not at all. A few weeks ago, Deputy Prime Minister Devlet Bahçeli gave a speech focusing on the errors of the past, referring, among other things, to populist formulas for pump priming and using inflation. He was very much on target. What Turkey really needs is a restoration of good fundamentals and confidence. The weakness last year was due to a crash in confidence. The consumers started saving like mad. Now, with the return of confidence, we expect a sort of homegrown recovery to start materializing.

For the dynamics of debt sustainability, what is overridingly important is real interest rates, not the growth rate. The real interest rate has been halved from six to nine months ago. In terms of the underlying debt sustainability, we are miles ahead of where we were.

QUESTION: If the 3 percent growth target for this year is somewhat more ambitious than it used to be, and you see a restoration of confidence, when do you see growth ramping up?

DEPPLER: I definitely see it happening during this year. The 3 percent figure is for the year as a whole, which, if you understand the arithmetic here, is heavily influenced by developments in late 2001. For the fourth quarter, for example, we expect 4 percent growth compared with the same quarter the previous year. We clearly foresee growth well in excess of 3 percent during 2002.

QUESTION: Turkey's Prime Minister recently said the government had, at the IMF's request, given too much independence to its independent agencies.

DEPPLER: Turkey is in the midst of a transition into new institutional structures. There are some changes and some things that need to be incorporated. But the IMF's Executive Board, which was very clear on this, said, moving forward, that the integrity and transparency of the bank recapitalization process and the independence of Turkey's regulatory institutions should be maintained.

QUESTION: Is there a possibility that the regional or external shocks may be worse the next time around?

DEPPLER: If you read the headlines, you know that the potential for regional shocks is there. But we are dealing now with policies that are much more resilient to shocks. The banking system and the exchange rate, in particular, make for a much more resilient structure. So we will have to keep an eye on the possibility of regional shocks, but I am not particularly concerned that these would be devastating.

QUESTION: Is the Turkish government dragging its feet a little bit on the downsizing of the public sector?

DEPPLER: No. Look at the formulation in the new Letter of Intent. We are talking about significant numbers—something like 10 percent of the labor force in public enterprises—but the intention is to achieve this through voluntary means. ■

Deppler: "We clearly foresee growth well in excess of 3 percent during 2002."

April 2002 World Economic Outlook

Global economic outlook brightens as recovery takes hold

There are now increasing signs that the global slowdown, which began in mid-2000, has bottomed out and that a recovery is under way, according to the April 2002 *World Economic Outlook*, released at a press conference on April 18. Kenneth Rogoff, the IMF's Economic Counsellor and Director of the Research Department, said that the IMF predicts global output growth of 2.8 percent for 2002 and 4 percent for 2003. Economic recovery is projected to be led by the United States, where GDP growth is expected to be 2.3 percent in 2002 and 3.4 percent in 2003 (see table, below).

As for inflation, Rogoff said, it is projected to be at record-low levels, reflecting both the recent slowdown and better policy credibility. The forecast for the advanced economies in 2002 is 1.3 percent—the lowest on record—and 1.8 percent in 2003. In the developing countries, inflation is also at a low 5.8 percent in 2002 (just above the 5.7 percent seen in 2001), then dropping to a record low of 5.1 percent in 2003.

Slowdown or recession?

Was the global slowdown a recession? Rogoff said that when reporters posed this question at the press conference for the October 2001 *World Economic Outlook*, the IMF did not have a view. But having researched the issue for the current report, the *World Economic Outlook* concludes—after looking at per capita output growth and several other variables, including world trade and industrial production—that while the years 1975, 1982, and 1991 did see global recessions, 2001 did not, even though it was a very close call. "It is," Rogoff admitted, "a matter of semantics whether one wants to call this the mildest global recession in recent years, or the most severe downturn that was not a full-fledged recession."

The U.S. National Bureau of Economic Research, he said, faced a similar quandary and opted to call the U.S. downturn a recession. Indeed, the U.S. downturn qualifies more clearly as an employment recession than as a full-fledged output recession. Employment growth was negative over several quarters, but since productivity growth held up unusually well—so that the same number of workers could produce more—output fell in only one quarter of 2001. This good news leads IMF staff to believe that its optimistic analysis in the October 2001 *World Economic Outlook* on productivity growth associated with the information technology revolution was correct, he added.

U.S. growth leads world economic recovery
(annual percent change)

			Current projections		Difference from December 2001 projections[1]	
	2000	2001	2002	2003	2001	2002
World output	**4.7**	**2.5**	**2.8**	**4.0**	**0.1**	**0.4**
Advanced economies	3.9	1.2	1.7	3.0	0.1	0.8
United States	4.1	1.2	2.3	3.4	0.2	1.6
Japan	2.2	–0.4	–1.0	0.8	—	—
European Union	3.4	1.7	1.5	2.9	—	0.2
Newly industrialized Asian economies	8.5	0.8	3.6	5.1	0.4	1.6
Developing countries	5.7	4.0	4.3	5.5	–0.1	–0.2
Africa	3.0	3.7	3.4	4.2	0.1	–0.2
Developing Asia	6.7	5.6	5.9	6.4	—	0.2
Middle East and Turkey[2]	5.8	2.1	3.3	4.5	–0.1	–0.7
Western Hemisphere	4.0	0.7	0.7	3.7	–0.3	–1.0
World trade volume (goods and services)	12.4	–0.2	2.5	6.6	–1.2	0.3
Oil[3]	57.0	–14.0	–5.3	–4.4	—	18.4

Note: Real effective exchange rates are assumed to remain constant at the levels prevailing during February 11–March 11, 2002.
[1]Using updated purchasing-power-parity (PPP) weights.
[2]Includes Malta.
[3]Simple average of spot prices of U.K. Brent, Dubai, and West Texas Intermediate crude oil. The average price of oil in U.S. dollars a barrel was $24.28 in 2001; the assumed price is $23.00 in 2002 and $22.00 in 2003.

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

In Europe, growth did not fall as sharply last year as in the United States, and the economic policy response was therefore less aggressive, so growth is expected to pick up a little later. Growth in the European Union is projected at 1.5 percent in 2002 and 2.9 percent in 2003. For Japan, the projected recovery is weaker and more fragile, with output declining by a further 1.0 percent in 2002 as a whole before rising by 0.8 percent in 2003. Rogoff pointed out that population growth in the United States is somewhat higher than in Europe and Japan, so that the per capita output growth projections are less different than the raw numbers imply.

Biggest risks

While the outlook is positive, Rogoff cautioned, policymakers need to remain alert to several possible risks.

Global imbalances. The first such risk is global imbalances, especially the persistent current account deficit in the United States (and associated low household saving rate) and surpluses of many of the other major countries. Indeed, since the United States is expected to lead the global economic upturn, the deficit may grow further. While the U.S. current account deficit is driven partly by high productivity growth in the United States relative to the rest of the world, it remains a significant concern because a sharp correction of existing current account imbalances resulting from a swing in capital flows could require a sharp realignment of exchange rates. Rogoff emphasized that the U.S. current account deficit is a global issue, not just a U.S. issue, and stronger growth in other industrial countries would help to correct it.

As to how this position squares with U.S. Treasury Secretary Paul O'Neill's stance that the current account deficit is not a problem, Rogoff said—responding to a reporter's question—that history gives reason for pause. While a country enjoying strong productivity growth and a strong inflow of investment is fundamentally in a good situation, it is also true that sustained current account deficits in the range of 4–5 percent of GDP are eventually reversed, with consequences—particularly in terms of the real exchange rate—that can be significant. During the 1980s, a similar situation arose: the U.S. current account was in deficit; there was a reversal of capital flows; the dollar depreciated sharply; and the effects were arguably not too favorable. It is hard to foretell what might happen today, Rogoff said, especially given the increasing sophistication and development of financial markets. So while we would not want to sacrifice growth to improve the current account balance, such a deficit is a vulnerability.

High corporate and consumer debt. A second area of vulnerability is the elevated level of equity prices compared with historical norms, as well as high corporate and consumer debt in many countries, as emphasized in the IMF's recent *Global Financial Stability Report.* If the buoyant projections of recovery underlying current equity values were to disappoint, this could be a source of financial market vulnerability.

Japan. A third risk comes from Japan, mired in its third recession in a decade. Rogoff said that the IMF does not foresee Japan becoming an engine of growth for the global economy in 2002 or 2003; over the longer term, however, that is certainly possible. Prospects for productivity growth are good, provided that Japan presses ahead with structural reforms, including cleaning up its banking and corporate sector problems and addressing health service issues and expenditures in state corporations. Another important step is for the Bank of Japan to engage in an aggressive policy to end deflation as soon as possible. Ending deflation is an important objective as it will help support growth. Chapter III of the *World Economic Outlook*, on Recessions and Recoveries (see box, page 142), notes that the Japanese case is the only one in which recessions have been accompanied by deflation over the post–World War II era, although deflations were more common in earlier periods.

IMF Research Department head Kenneth Rogoff (right) responds to a press question. With him on the dais are (left to right) Tamim Bayoumi, Chief of the World Economic Studies Division, and David Robinson, Senior Advisor.

In response to a follow-up question on Japan from a reporter, Tamim Bayoumi, Chief of the IMF's World Economic Studies Division, noted that the recently completed special banking sector inspections are a move in the right direction. These have led to a significant downgrade in the loans of the 149 large companies involved on the order of 7 trillion yen, or 1.5 percent of GDP. At the same time, it should be recognized that these companies cover only 4 percent of bank loans in Japan. The IMF staff continues to believe that a comprehensive assessment of all nonperforming loans would lead to a significant reduction in the capital asset ratios of the Japanese banking system.

Noneconomic events. A fourth risk involves unforeseen noneconomic developments. The global economic recovery is expected to be solid, but events like those of September 11 could undermine confidence and stall the recovery. Oil price hikes are a dimension of this risk, as increases in oil prices can be linked to such events. Current spot and futures market prices for oil are roughly in line with the staff's baseline projections of \$23, on average, for 2002 and \$22 for 2003. A sharp spike in oil prices would harm the global economy—the staff estimates that a price rise of \$5 a barrel sustained for one year would cut global GDP by 0.3 percent. But the effect

Jacob Frankel reassured me that recessions are to an economist what plagues are to a mortician, but I nevertheless find this a much happier occasion.
—Kenneth Rogoff

could be significantly larger if the increase in oil prices were accompanied by a significant noneconomic event.

Getting policy right

Policymakers' records in recent years give reason to believe that these risks can be managed, Rogoff said. Indeed, the *World Economic Outlook* finds that part of the reason this slowdown was so mild is that economic downturns overall have become less marked over the past 15–20 years, thanks partly to better monetary policies and, possibly, to better fiscal policies. Rogoff commended the recent policy responses by the industrial countries, especially by the Federal Reserve Board and, to a lesser extent, the European Central Bank. The timing of the U.S. tax cut was fortuitous, while the euro area benefited from the flexible interpretation of the Growth and Stability Pact, which allowed the automatic stabilizers to work. Elsewhere, countries that reduced vulnerabilities—for example, by moving to more flexible exchange rates—tended to weather the storm better than countries with less flexible markets and a weaker macroeconomic policy framework.

Last, but not least, Rogoff noted, the IMF had helped. For example, soon after September 11, IMF Managing Director Horst Köhler encouraged the industrial countries to fight the downturn proactively and made it clear that the IMF would, in evaluating countries' eligibility for IMF financial assistance, recognize the global nature of the shock that many developing countries were facing.

As the recovery picks up steam, Rogoff cautioned, industrial countries will need to balance the risks of inflation against the fragility of the recovery when conducting their monetary policy. Short-term real interest rates are very low and cannot be sustained indefinitely at these levels without generating inflation. One of the lessons of the recent downturn is that if you pay attention to your economy and take care of medium-term structural issues during the good times, it puts you in a much better position to weather downturns.

Rogoff said that he was happy to be able to present reporters with an upward-looking forecast after the difficult task of conducting his first *World Economic Outlook* press briefing just after September 11. "Jacob Frankel, who describes himself as my grandfather, reassured me that I shouldn't worry, that recessions are to an economist what plagues are to a mortician," Rogoff quipped. "But I nevertheless find this a much happier occasion." ■

Marina Primorac
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How do financial markets affect the economy?

The links between financial markets and the real economy hold intriguing questions for both researchers and policymakers. Chapter II of the *World Economic Outlook* examines three of the hotter issues in this area: why sovereign debt crises have been more frequent in Latin America, how a huge run-up in wealth has been affecting consumer spending in industrial countries, and what challenges low inflation poses for monetary policy.

Why have sovereign debt crises been more common in Latin America? Over the past one and a half centuries, external financing crises have been more frequent in Latin America than anywhere else. And despite policy reforms, they have continued into the 1990s and the beginning of the new century. Why is the region different? Latin America is distinguished by vulnerabilities in three areas: exports, external borrowing, and fiscal policy.

Many countries in the region have high ratios of foreign debt to exports—largely because exports have been low relative to GDP. Fiscal policy has also tended to move in tandem with the business cycle, enlarging rather than smoothing fluctuations in output. And both the government and the private sector have tended to borrow abroad in foreign currencies, because domestic financial markets are often not sufficiently developed, especially in terms of lending at longer maturities. The resulting currency mismatches between assets and liabilities have left these countries vulnerable to exchange rate fluctuations.

Low exports, high external borrowing, and volatile procyclical fiscal policies have a common starting point: weak fiscal systems. Inadequate internal tax systems force governments to rely more heavily on tariff revenue, which reduces the incentives businesses have to export and produces relatively closed economies. Revenue shortfalls and expenditure excesses periodically force governments to resort to the monetary financing of fiscal deficits and have been the chief factor underpinning the region's history of hyperinflation. High inflation hampers the development of financial markets and makes it difficult to borrow in domestic currency. Even in good times, weak tax and expenditure control systems thwart the accumulation of fiscal surpluses and force governments to tighten fiscal policy during bad times, thus amplifying adverse shocks.

Many Latin American countries have made substantial progress with fiscal reforms in recent years, however, and this, together with more flexible exchange rate systems, should reduce these vulnerabilities in the future.

Is an unprecedented increase in household wealth driving consumer spending in industrial countries? The 1990s saw a similar pattern in almost all of the major developed countries: sharply increased household wealth

Putting recessions, recoveries in historical context

The world economy just experienced its most severe slowdown since the early 1990s. Was the slowdown as unusual as many analysts claimed, or was the degree of synchronization among the major developed economies so exceptional? Was the role of fixed investment in the downturn more typical of late nineteenth century recessions than of modern recessions? What has been the role of interest rates in triggering recessions? These are not merely academic questions, Chapter III of the *World Economic Outlook* argues; they are essential to understanding the current conjunctures and to formulating appropriate policy responses.

How different was it?

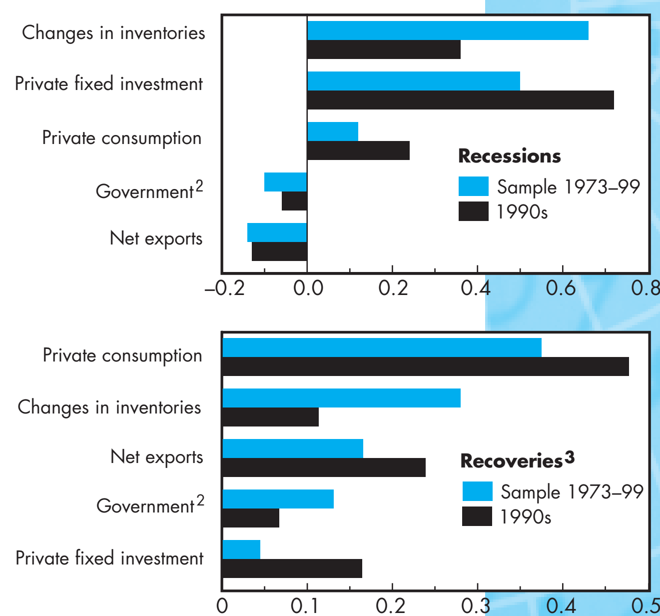
Most studies of macroeconomic fluctuations have concentrated on individual countries, but the number of recessions in any given country is sufficiently small to make reliable conclusions hard to come by. Chapter III ambitiously sets out to examine all "level" recessions—commonly identified as two or more consecutive quarters of negative real GDP growth—in industrial countries over the period 1973–2001. That's 93 recessions in all. It also examines the history of recessions going back to 1881 for a narrower set of countries. The results are startling—certainly in light of much conventional wisdom.

First and foremost, synchronization of downturns across countries is the historical norm. Since the late nineteenth century, most recessions have been synchronized (see chart, page 144). In fact, the desynchronized double peak of the early 1990s was an exception, reflecting

What drives recessions and recoveries?

Declines in inventories and private fixed investment largely account for output declines during recessions, while increases in private consumption are the most important driving force during recoveries.

(ratio of change in component to change in output)[1]



[1]Unweighted average.
[2]Includes government fixed capital formation and government final consumption.
[3]Cumulative change during first four quarters after the trough.
Data: IMF, *World Economic Outlook*, April 2002

and sharply decreased household saving rates. A closer look at what was happening suggests that these trends are more pronounced in countries with market-based financial systems than in those with predominantly bank-based systems. Market-based financial systems allow a greater share of household assets to be held in equities and housing and also increase households' ability to borrow against their wealth.

The rise in household wealth during the 1990s dramatically boosted spending on goods and services, with enormous implications for saving rates, which declined by about 8 percentage points in market-based systems, but by only about 1$^1/_2$ percentage points in bank-based systems. The analysis suggests that in market-based systems the impact of the recent decline in equity prices on the saving rate will be partly or fully offset by the continued rise in housing prices. It also finds that consumption in these countries has become increasingly sensitive to stock market and housing prices.

What implications will this have for monetary policy? It suggests that, to the extent changes in wealth affect inflation and output, stock market and housing prices may have become more significant considerations for monetary policy. But this does not imply that monetary policy should directly target asset prices.

Low inflation is back! Now what? The restoration of low inflation in industrial countries during the 1990s owed much to widespread changes in the conduct of monetary policy that began in the late 1970s—including a much sharper focus on the containment of inflation. An associated benefit has been related shifts in private sector behavior. These changes had their roots in a societal acknowledgment that high inflation means bad economic performance and in the realization, by economists and policymakers, that the key to maintaining low inflation is not simply setting appropriate rules for monetary policy but also properly designing central banking institutions and ensuring their independence.

But can there be too much of a good thing? In this new low-inflation environment, concerns about higher inflation have to be counterbalanced by concerns about deflation. The downward rigidity of prices and wages makes adjustment to deflation painful, as Japan's ongoing deflation amply demonstrates. In addition, deflation places a floor on how low the central bank can push real interest rates, given that nominal interest rates cannot go below zero and that inflation expectations are sluggish. Concerns about deflation suggest that central banks need to be proactive in responding to weaknesses in demand and activity.

Analysis indeed suggests that the danger of getting into a sustained deflation increases as inflation targets are lowered.

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different shocks in different countries. Typically, two factors lead to synchronized recessions: global linkages, including trade and financial flows, and—more important—common shocks. In the recent slowdown, the bursting of the tech bubble, the rise in oil prices, and the simultaneous tightening of monetary policy toward the end of the 1990s expansion were all global phenomena.

Fixed investment's role

A sharp drop in business fixed investment is typical in the lead-up to a recession. In fact, the role of fixed investment in recessions has increased over time, with virtually all recessions in recent decades accompanied by contractions in fixed investment, compared with only about 60 percent of recessions in the late nineteenth century. In modern recessions, the contractions in fixed investment start before the decline in output, are much deeper, last longer, and are more synchronized across countries. In the recent slowdown, the collapse in investment spending associated with the bursting of the tech bubble certainly fits this description.

The mildness of the recent global slowdown is also in line with a historical trend toward shallower recessions. Recessions in the late twentieth century were only about half as severe as those in the late nineteenth century, even though the average growth rate was similar in the two periods. And more recently, recessions in the 1990s proved milder than those in the 1970s or 1980s. The analysis also shows that the duration of recoveries is not significantly related to the duration or severity of the preceding recessions. Thus, the relatively short and mild recent slowdown need not imply a slow recovery.

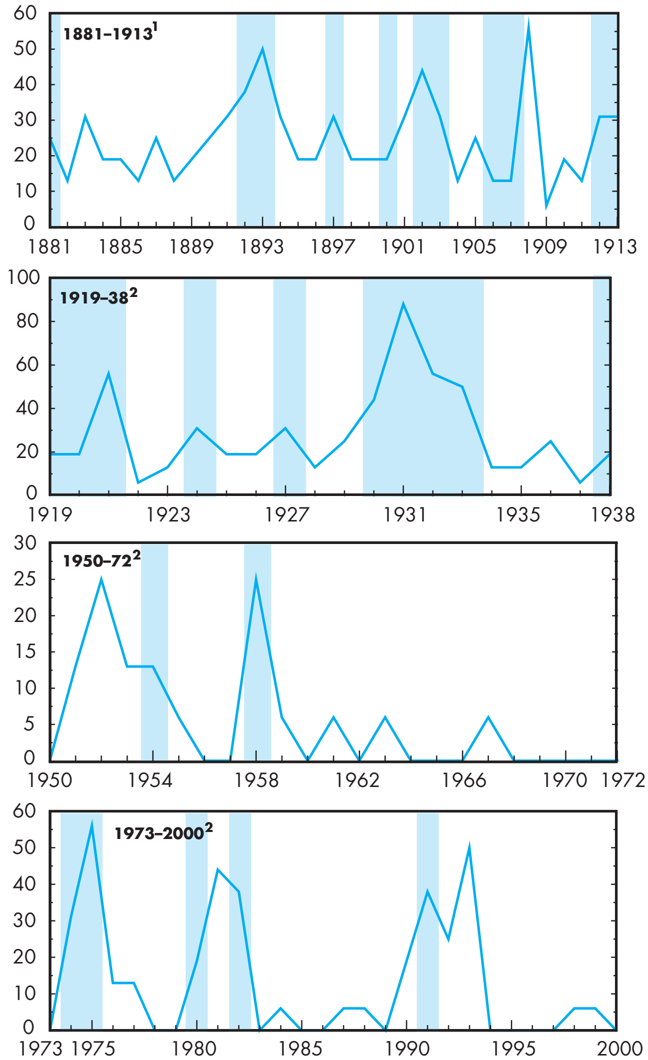
Finally, recoveries do not have to wait on turnarounds in fixed investment. While modern recessions are usually driven by declines in fixed investment and inventories, upturns in private consumption tend to drive recoveries (see chart, page 143). Contractions in consumption are less correlated across countries than contractions in output, consistent with the disparate behavior of consumer spending across European countries during the recent slowdown. In addition, in both recessions and recoveries, the role of inventories has been falling over time—a trend often attributed to improved inventory management and partly in response to the increased use of information technology, as discussed in the October 2001 *World Economic Outlook*.

What do interest rates have to do with it?

The review of downturns over time suggests that increases in interest rates have regularly marked the onset of recessions. Admittedly, it is not easy to sort out cause from effect—tighter monetary policy might be the response to inflationary pressures during an expansion,

Recessions have always been synchronized

If anything, recessions have become more synchronized over time.
Recessions in the largest economy have either led or coincided with the peaks.
(percent of countries in recession at the same time, 16 countries = 100)



[1]The shaded areas indicate the years when the United Kingdom was in recession.
[2]The shaded areas indicate the years when the United States was in recession.
Data: IMF, *World Economic Outlook*, April 2002

which might end for other reasons. Indeed, the magnitude of the interest rate increases prior to recessions is positively related to inflation. Also, the size of the interest rate increases is positively related to the depth of the subsequent recession. The increases in interest rates prior to the recent downturns were smaller than usual—reflecting relatively low inflation during the previous expansion—and the downturns were relatively mild.

So, while each recession has its own unique features, the recent global slowdown had much in common with past downturns—far more so than is commonly recognized. ■

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Copies of *World Economic Outlook, April 2002: Recessions and Recoveries* are available for $42.00 each ($35.00, academic price) from IMF Publication Services. For ordering information, please see page 122.