Statement by Mr. Charlie McCreevy, Minister for Finance of Ireland and Governor of the International Monetary Fund in his capacity as Chairman of the EU Council of Economic and Finance Ministers

International Monetary and Financial Committee
Washington D.C.
April 24, 2004

1 - We meet today just days before an historic enlargement of the European Union from 15 to 25 Member States on Saturday next, May 1st. This is a truly momentous event, signifying a new era of friendship and cooperation among the nations of Europe. The Irish Presidency of the European Union looks forward to warmly welcoming the new Member States.

I submit, in my capacity as Chairman of the EU Council of Economic and Finance Ministers, this statement which focuses on: the world economy; crisis prevention and resolution in Emerging Market Economies (EMEs); the role of the Fund in low income countries; the financing of the HIPC Initiative; countering abuses of the international financial system and fighting terrorist financing.

**Economic situation and outlook**

2 - The recovery of the global economy is further accelerating and broadening. The strong momentum already achieved in Asia and North America and the rapid expansion of world trade over the past few months bear witness to a renewed strength of the world economy, underpinned by a number of factors including supportive financial conditions and accommodative macro-economic policies in several countries. Yet, the high level of oil prices – should it persist - and the remaining global imbalances represent a downside risk to this outlook.

3- The upturn is also under way in the EU but at a much slower pace, particularly given lingering weakness of domestic demand. After three quarters of stagnation, real GDP growth resumed in the third quarter of 2003 and continued further in the fourth quarter, albeit at a slightly lower pace. The initial phase of recovery in the euro area was driven by external demand. Domestic demand then took over from trade as the engine of growth in the last quarter of the year, with a pick-up in investment. However, private consumption remained subdued and provided no impulse to growth. Growth in the euro area is expected to gather momentum in the course of 2004, helped by the global upturn and by a progressive strengthening of domestic demand thanks mainly to the low level of interest rates and generally favourable financing conditions. In this respect, investment growth figures for the euro area in the last quarter of 2003 are encouraging considering the previous quarters of contraction. Inflation has declined since the beginning of the year compared to 2003, and inflationary pressures are expected to remain firmly under control in the period ahead. Also, the structural reform steps taken over the last few years add flexibility and will improve the growth potential of the EU economies.
The key economic challenge to policy-makers is to make the recovery sustainable:

- Sound fiscal policies have a central role to play in all major zones. In the EU, Member States will contribute to stabilising output by allowing the full and symmetric play of the automatic stabilisers over the cycle, while avoiding excessive deficits, and achieving and maintaining budgetary positions of close to balance or in surplus over the economic cycle in cyclically-adjusted terms. Great attention is also paid to strengthening of the longer-term sustainability of public finances, in particular by further reducing government debt ratios, encouraging employment, and reforming pension and health care systems now while the demographic window of opportunity is still open.

- The EU Member States remain committed to implementing further structural measures with a view to raising the productive potential of their economies, and consequently to achieve higher rates of sustainable economic growth and employment creation in the long run.

- All major countries and economic areas must play their part in contributing to the adjustment of global imbalances by putting in place the appropriate economic policies. The euro area’s view on the euro exchange rate remains unchanged: the euro must keep its value over the medium and long run, in line with economic fundamentals. In the present circumstances, stability is particularly important and excessive exchange rate moves are not desirable.

**Crisis prevention, including surveillance**

5- Surveillance is the most important tool the Fund has for crisis prevention. Therefore, the Fund must continue to strenghten its surveillance techniques and to enhance the impact of its policy advice in both program and non-program countries. We attach particular importance to the 2004 biannual review of surveillance. We look forward to the discussion on specific issues such as: broader use of the balance sheet approach and its integration with the debt sustainability analysis; increased attention to exchange rate issues, currency and maturity mismatches, financial vulnerabilities, and global and regional spillovers; increased realism in growth forecasts and systematic use of alternative scenarios in particular concerning growth; continuing efforts to bring about a fresh perspective in program countries and extensive analysis of the institutional underpinnings of growth in low-income countries.

The Fund should strengthen the traction of its surveillance, by factoring into program decisions the extent to which countries have not followed up on appropriate earlier Fund advice.

6- We look forward to the implementation of the new transparency policy based on the presumption of publication of Article 4 and program documents as from 1 July 2004. The effort to increase also the transparency of ROSCs and FSAPs should be further increased, inter alia by incorporating the results in surveillance activities.

7- We would like to strengthen the signalling role of the Fund’s surveillance. This includes strengthening the possibility to give the IMF seal of approval to countries with
sound policies in place, notably through precautionary arrangements. So far the experiences with the use of precautionary arrangements have to a great extent been positive, especially for low access arrangements. The Fund should further consider the pros and cons of precautionary arrangements, also as an exit strategy aimed at reducing the prolonged use of its resources and from exceptional access programs.

**Crisis resolution**

8- Work on improving crisis resolution still needs to be continued and strengthened. In particular, it will be crucial to ensure that the IMF exceptional access policy is strictly implemented. We reconfirm our commitment to protecting the Fund’s preferred creditor status.

9- We urge the Fund to strengthen implementation of its Lending into Arrears policy, in particular by developing more operational criteria for judging compliance with the good faith criterion. We would like the Fund to be involved at an early stage in the assessment of countries’ compliance with these criteria and to report to the Board each time a program under this policy is being reviewed. Preferably, this should be done in a special report, similar to the special reports assessing exceptional access criteria, to be made public. We encourage the representatives of sovereign debtors and the private sector to make faster progress on the Code of Good Conduct, that could underpin the Fund’s assessment.

10- EU countries note the benefits of a harmonised approach to the inclusion of CACs in bond contracts, and remain committed to leading by example. Therefore, the EU will use contractual provisions based on the framework developed by the G10, and where necessary in accordance with applicable law and adjusted to local legal practice, in their central government bonds issued under a foreign jurisdiction and/or governed by a foreign law. EU Member States will no longer issue such bonds without any CACs.

11- However, further substantial work on a sovereign debt restructuring mechanism relevant to the resolution of crises is needed, including on issues related to a statutory approach such as the aggregation of claims, the treatment of debt stock and the incompleteness and asymmetry of information.

**Role of the Fund in LICs**

12- The IMF has an important role to play in low income countries creating an economic environment, which is also conducive to the delivery of the MDGs. This role is derived from the Fund’s core mandate of supporting the institutions and policies necessary for the macroeconomic stability which is a precondition of poverty reduction. The Fund should concentrate on its areas of key competence, working with others, particularly the World Bank on the lead agency model, that can be operationalised by a structural policy matrix to clarify the roles of the two institutions on structural conditionality. We welcome the recent survey on collaboration between the Bank and the Fund and we appreciate the proposals for strengthening institutional cooperation, in particular through the Joint Implementation
Committee. We also welcome the joint work of the Bank and the Fund to define a new framework for debt sustainability analysis in low income countries.

13- The modalities of Fund engagement with LICs will vary with the individual circumstances of the member concerned. Recognizing the progress made in recent years by the IMF in aligning support behind country-owned PRSPs, work should continue to refine both program and facility design to allow the transition from continual Fund programs to a surveillance based relationship where programs are episodic, as required.

14- We stand ready to support PRGF financing in the future. For a more accurate assessment of the different financing options we feel that additional information is needed with respect to the absorption capacity and the expected financing needs. Due consideration should be given to the issue of a fair and appropriate burden sharing of PRGF-financing.

15- The EU will do its utmost to facilitate a resumption of the Doha round and urges others to do the same.

The HIPC Initiative

16- Continued attention towards the implementation of the HIPC initiative is warranted. The EU has provided more than half the financing of the HIPC initiative. We urge the group of HIPC countries to take all the necessary measures to reach the completion point and to come forward for HIPC debt relief. Donors should focus technical assistance to help these countries in their efforts. We urge all creditors and donors that have not yet done so to provide their share of bilateral debt relief and multilateral financing to the initiative. The full financing of the initiative is necessary to provide HIPC debt relief to all entitled countries, including appropriate topping up at the completion point.

Abuse of the Financial System and fighting terrorist financing

17- Terrorism is a deadly challenge to the existence and progress of a peaceful society and also a major threat to the stability of the financial system. Therefore, we reaffirm our determined commitment to fight the financing of terrorism, and money laundering, particularly in the light of the revival of brutal terrorist attacks as occurred recently in Madrid.

18- We encourage all countries to continue in their efforts to ensure the consistent application of the anti-money laundering and the anti-terrorist financing standards. Through the implementation of the second EU anti-money laundering Directive we demonstrate our continued commitment to fight money laundering and terrorist financing. We are working on a third directive to further strengthen the AML/CFT actions by implementing in a consistent manner across EU Member States the revised Forty Recommendations on Money Laundering and the Eight Special Recommendations on Terrorist Financing issued by the Financial Action Task Force.
19- We appreciate the extensive work performed by the IMF and the World Bank in this area. We welcome in particular the favourable outcome of the 12-month pilot program in which the IMF and the World Bank have successfully applied the FATF’s Recommendations in the assessment of countries’ financial systems.

20- We urge both the IMF and the World Bank to include the FATF’s Recommendations in their Financial Sector Assessment Program on a comprehensive, uniform and permanent basis and we look forward to the endorsement of the newly agreed FATF’s common methodology to assess compliance with anti-money laundering and anti-terrorist financing standards (AML/CFT).

Other

21- We commend the Fund and the Bank for their efforts in the reconstruction of Afghanistan and Iraq.

22- We welcome the Argentine authorities’ commitment to establish a timetable and process aimed at ensuring meaningful negotiations with all representative creditor groups. We call on Argentina to continue working constructively with the Fund and to increase its efforts for reaching a collaborative agreement with creditors on a sustainable debt restructuring, which would attain broad support from creditors. Argentina should aim at a significantly more ambitious primary surplus in the coming years as well as a more ambitious structural reform effort in the medium term. This would improve external confidence, thus strengthening long term growth and debt sustainability.