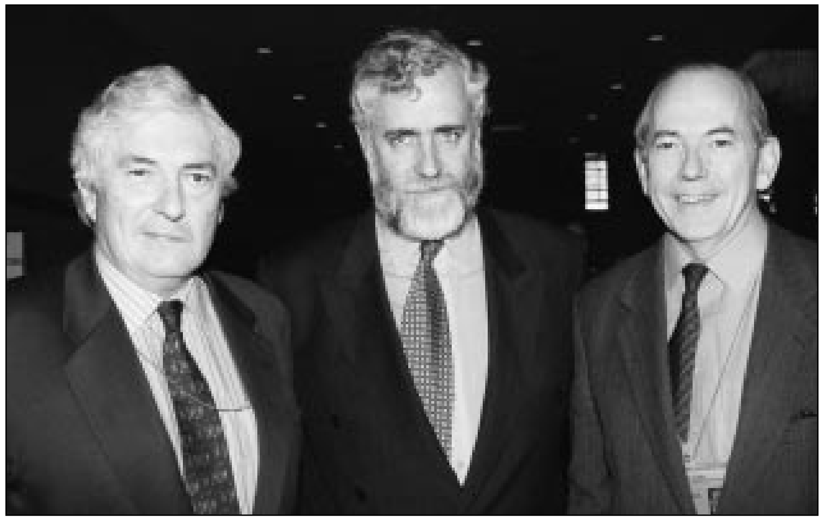
Annual Meetings

Ministers Update Global Growth Strategy, Agree on Interim ESAF Financing

Gathering in Washington on October 1–3 for the Fifty-First Annual Meetings of the IMF and the World Bank, finance ministers and central bank governors welcomed the recent agreement on ways to finance a continuation of the IMF's enhanced structural adjustment facility (ESAF) for the interim period 2000–2004, after which it will become self-sustaining. This clears the way for the IMF to participate fully in the joint IMF-World Bank initiative to help highly indebted poor countries put their external debt burdens on a sustainable basis.



World Bank President James D. Wolfensohn (left), Annual Meetings Chairman Eduardo Aninat, and Managing Director Michel Camdessus at the Annual Meetings.

Ministers and governors at the Meetings shared the IMF's cautious optimism about global economic prospects through the medium term. They reaffirmed the cooperative strategy to strengthen the global expansion, which they acted to broaden, and agreed on the need for a strong and effective IMF to help members carry this expansion out. In this connection, they strongly supported the IMF's development of a Special Data Dissemination Standard to guide members in publishing economic and financial data. And they gave new prominence to the objectives of high-quality government expenditure, good governance (including the fight against corruption), and sound banking systems.

The Meetings also produced a consensus on the need to expedite the commitment of additional financial resources to enable the IMF to fulfill its mandate in the increasingly globalized economy. Ministers called for action to reach a conclusion on an increase in IMF quotas under the Eleventh General Review as soon as possible and endorsed a doubling of borrowed resources under the General Arrangements to Borrow (GAB) through the establishment of new arrangements to borrow. They also endorsed a onetime "equity" SDR allocation, with the exact amount to be determined later.

Commenting on the good performance of the world economy and generally favorable prospects, IMF Managing Director Michel Camdessus, at a September 26 press conference, emphasized that there was no room for complacency. He underscored the need for the IMF to step up efforts to meet the challenges of the global economy by continuing to sharpen the focus of its surveillance through more continuous and candid dialogue with member countries, more attention to capital account developments and to countries where economic and financial developments could have spillover effects, and to regional surveillance. Other recent steps have included the introduction of mechanisms to provide emergency financing to member countries facing financial crises, to help members stabilize currencies, and to support countries emerging from conflicts.

The October 1–3 Annual Meetings were preceded by meetings of the IMF's principal advisory body, the Interim Committee of the IMF's Board of Governors on the International Monetary System (the Interim Committee) on September 29; the Joint Bank and Fund Committee on the Transfer of Real Resources to Developing Countries (the Development Committee) on September 30; and earlier meetings of various groups including the Group of Ten and Group of Seven industrial countries and the Group of Twenty-Four (G-24) developing countries.

The Annual Meetings opened on October 1 with addresses by Eduardo Aninat, Chile's Finance Minister and Chairman of the Annual Meetings; IMF Managing Director Michel Camdessus; and World Bank President James D. Wolfensohn. U.S. Vice-President Albert Gore also addressed the plenary.

The World Economy

At its September 29 meeting, the Interim Committee welcomed the generally encouraging world economic and financial situation and the prospects for a strengthening and broadening of the expansion in 1996 and 1997. Committee members noted the progress toward price stability and in reducing fiscal deficits in many countries, the improved exchange market conditions among the major currencies, the continuing rapid expansion of trade and financial flows, and the growing reliance on market forces worldwide.

Developing countries were playing an increasingly significant role in generating growth and expanding trade, according to the Interim Committee communiqué, with emerging market economies—especially in Asia—reaping the benefits of consistent implementation of market-oriented policies, supported by capital inflows. Per capita incomes and growth prospects in an increasing number of African countries were improving as a result of sound policies, although serious problems remained. In Latin America, many countries were recovering and experiencing lower inflation, while stronger adjustment efforts have enhanced growth prospects in several Middle Eastern countries. In the countries in transition to market-oriented economies, continued implementation of broad-based reforms was expected to lead to a further strengthening of growth, while inflation, though still high, was declining. And in the industrial countries, inflation was subdued: strong expansion of output and employment had continued in the United States and some other countries; Japan's recovery was more firmly established; and in continental western Europe, the standstill in growth had ended, with conditions now in place for a resumption of more satisfactory growth.

The Interim Committee credited the favorable developments in the world economy to the implementation by many countries of policies consistent with the strategy set out in the October 1994 Madrid Declaration on Cooperation to Strengthen the Global Expansion. Acknowledging the continuing validity of this strategy—which emphasizes sound macroeconomic policies and structural reforms—the Committee acted to update and broaden it to reflect new challenges in the changing global environment and called for a strengthening of its implementation. The result is a new "Partnership for Sustainable Global Growth".

The new Declaration, as outlined by Interim Committee Chairman Philippe Maystadt at a press conference following the Committee's meeting:

• stresses the importance of the complementarities between macroeconomic policies and structural reforms;

• calls for fiscal discipline (defined as fiscal balance over the medium term) while drawing attention to the quality and composition of the fiscal adjustment and the need for greater transparency in government finances;

• emphasizes the need for good governance in all of its aspects; and

• attaches particular importance to ensuring the soundness of banking systems and to the need for more action to prevent money laundering.

The new Declaration constituted, said Camdessus, the "11 commandments" of good governance of the world economy. It is unique, he said, because it represents a distillation of the IMF's surveillance experience with its 181 member countries.

The issues of high-quality fiscal spending, good governance, and banking soundness in the new Declaration were the focus of much attention at the Annual Meetings. Meetings Chairman Aninat, in his opening remarks, called on countries to increase the efficiency of, and better target, their social spending—giving priority to human capital development and re-engineering public social security and health care systems. With regard to governance, both Camdessus and World Bank President Wolfensohn emphasized the need to root out corruption to permit efficient resource allocation, create a climate of confidence for savers and investors, and improve external competitiveness. As to banking soundness, both Camdessus and Wolfensohn pointed to the risk of banking crises in many countries in the absence of sound macroeconomic policies; Camdessus called the fragility of national banking systems the "Achilles' heel of the global economy."

IMF Surveillance

Interim Committee members welcomed IMF efforts to strengthen its surveillance and the report of the Managing Director on the review of IMF policies in the context of its surveillance of its members' policies. Three themes emerged from the latter report that held valuable lessons for the IMF and its members:

• The composition of fiscal adjustment matters. There is broad agreement that medium-term fiscal adjustment measures should be high quality, although difficult trade-offs exist on the timing of fiscal reforms.

• Actions to reduce inflation and keep it at low levels should be pursued. There is a general consensus on the primacy of achieving a high degree of price stability over the medium term.

• Transition economies should move quickly toward establishing liberal and transparent trade systems.

Ministers at the Annual Meetings strongly supported the Special Data Dissemination Standard and the broad mix of industrial and emerging market countries among its first subscribers (38 industrial and emerging market countries had subscribed by the end of the Meetings). The Interim Committee urged other countries in a position to subscribe to do so and asked the Executive Board to complete work on the general standard for data dissemination, which will apply to all countries, so that it would be in place before the Interim Committee's spring meeting.

IMF Funding Issues

Quotas. In his opening remarks to the Annual Meetings, Managing Director Camdessus pointed out that the IMF's liquidity position was on a relatively sharp downward trend and that its liquidity ratio (usable financial resources to liquid liabilities) was expected to fall below what has traditionally been regarded as the critical threshold of 70 percent by the end of 1997—the ratio's lowest level since 1983. Camdessus explained how important it was for the IMF to maintain sufficient liquidity to "give confidence" to *all* members to undertake bold programs of adjustment and reform. Ministers speaking at the Meetings emphasized that the IMF must remain a quota-based institution. Only maintaining the size of the IMF relative to the world economy, Camdessus said, would require a quota increase of at least two-thirds from the current level of SDR 140 billion. A majority of the Executive Board supported a "substantial" increase in quotas, which, in Camdessus's view, meant between 50 and 100 percent.

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Borrowed Resources. The Interim Committee welcomed the progress made in establishing the new arrangements to borrow, which would double the credit lines now available to the IMF under the GAB to about SDR 34 billion, for use in case of a threat to the global monetary system. The Committee asked industrial and developing country participants in the new arrangements, and the Executive Board, to wrap up their work to bring the new arrangements into effect as soon as possible. In his opening remarks, Camdessus called the new arrangements a "key supplement" to the IMF's own resources in a time of systemic crisis, but he reiterated that the IMF's strength as a cooperative institution derived from the strength of its quota subscriptions.

ESAF and Debt Initiative

The Interim Committee's endorsement of a self-sustaining ESAF underscored the ESAF's role as the centerpiece of the IMF's strategy to help poor countries that adopt sound policies. Camdessus hailed the "remarkable spirit of compromise" that produced the agreement. Both the Interim and Development Committees endorsed the joint IMF-World Bank initiative to ensure that the heavily indebted poor countries with a sound track record of economic adjustment attain a sustainable debt burden over the medium term.

Financing of the ESAF for the interim period, explained Camdessus in his opening address, would come from bilateral contributions and, if needed, through the IMF's "optimization of its reserve management." The Development Committee emphasized that coordinated action by all creditors was critical to the success of the debt initiative. In this connection, both Committees welcomed the readiness of Paris Club official creditors to go beyond Naples terms in providing debt reduction of up to 80 percent for countries qualifying for additional relief under the new debt initiative, on a case-by-case basis according to their usual rules. The Development Committee asked the IMF and the World Bank to begin implementation of the initiative before the end of 1996.

Equity Allocation of SDRs

The Interim Committee welcomed the consensus reached in the Executive Board that all IMF members should receive an equitable share of cumulative SDR allocations. This would require an amendment of the IMF's Articles of Agreement providing for a onetime allocation of SDRs, based on a common benchmark ratio of cumulative allocations to current quotas. The Committee did not agree on an amount, but in his opening plenary speech, Camdessus repeated his suggestion that an allocation of SDR 26.6 billion would equalize all members' cumulative allocations relative to their quotas (at 33 percent).

An amendment of the IMF's Articles would not in any way affect the IMF's existing power to allocate SDRs on the basis of a finding of long-term global need to supplement reserves should the need arise, Interim Committee members agreed. They asked the Executive Board to complete its work on the amendment by the time of the Committee's next meeting. In their communiqué, G-24 ministers called for a two-year deadline for the amendment.

Development Financing

At their September 30 meeting, Development Committee members reiterated their strong support for the World Bank's highly concessional lending arm, the International Development Association (IDA), and urged all donors to fully respect their commitments to IDA's eleventh replenishment and to secure adequate future funding as well.

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