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To: Members of the Executive Board  
From: The Secretary  
Subject: **Birmingham Summit**

Attached for the information of the Executive Directors is a copy of the documentation on the Birmingham Summit held on May 15-17, 1998.

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## **G8 BIRMINGHAM SUMMIT**

**15-17 MAY 1998**

### **COMMUNIQUE**

#### Introduction

1. We, the Heads of State or Government of eight major industrialised democracies and the President of the European Commission, met in Birmingham to discuss issues affecting people in our own and other countries. In a world of increasing globalisation we are ever more interdependent. Our challenge is to build on and sustain the process of globalisation and to ensure that its benefits are spread more widely to improve the quality of life of people everywhere. We must also ensure that our institutions and structures keep pace with the rapid technological and economic changes under way in the world.

2. Of the major challenges facing the world on the threshold of the 21st century, this Summit has focused on three:

- achieving sustainable economic growth and development throughout the world in a way which, while safeguarding the environment and promoting good governance, will enable developing countries to grow faster and reduce poverty, restore growth to emerging Asian economies, and sustain the liberalisation of trade in goods and services and of investment in a stable international economy;
- building lasting growth in our own economies in which all can participate, creating jobs and combating social exclusion;
- tackling drugs and transnational crime which threaten to sap this growth, undermine the rule of law and damage the lives of individuals in all countries of the world.

Our aim in each case has been to agree concrete actions to tackle these challenges.

#### Promoting sustainable growth in the global economy

3. In an interdependent world, we must work to build sustainable economic growth in all countries. Global integration is a process we have encouraged and shaped and which is producing clear benefits for people throughout the world. We welcomed the historic decisions taken on 2 May on the establishment of European Economic and Monetary Union. We look forward to a successful EMU which contributes to the health of the world economy. The commitment in European Union countries to sound fiscal policies and

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continuing structural reform is key to the long-term success of EMU, and to improving the prospects for growth and employment.

4. Overall global prospects remain good. However, since we last met, the prospects have been temporarily set back by the **financial crisis in Asia**. We confirm our strong support for the efforts to re-establish stability and growth in the region and for the key role of the International Financial Institutions. Successful recovery in Asia will bring important benefits for us all. Therefore:

- we strongly support reforms underway in the affected countries and welcome the progress so far achieved. With full implementation of programmes agreed with the IMF we are confident that stability can be restored. The underlying factors that helped Asia achieve impressive growth in the past remain in place. Implementation of agreed policies together with the action taken by ourselves and other countries to avoid spillover effects provide the basis for a firm recovery in the region and renewed global stability;
- we believe a key lesson from events in Asia is the importance of sound economic policy, transparency and good governance. These improve the functioning of financial markets, the quality of economic policy making and public understanding and support for sound policies, and thereby enhance confidence. It is also important to ensure that the private sector plays a timely and appropriate role in crisis resolution;
- we are conscious of the serious impact of the crisis in the region on the poor and most vulnerable. Economic and financial reform needs to be matched with actions and policies by the countries concerned to help protect these groups from the worst effects of the crisis. We welcome the support for this by the World Bank, the Asian Development Bank and bilateral donors and the increased emphasis on social expenditure in programmes agreed by the IMF;
- we are concerned that the difficulties could trigger short-term protectionist forces both in the region and in our own countries. Such an approach would be highly damaging to the prospects for recovery. We resolve to keep our own markets open and call on other countries to do the same. We emphasise the importance for the affected countries of continued opening of their markets to investment and trade.

5. Looking ahead to the **WTO's** celebration of the 50th anniversary of the founding of the GATT next week, we:

- reaffirm our strong commitment to continued trade and investment liberalisation within the multilateral framework of the WTO;
- call on all countries to open their markets further and resist protectionism;

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- strongly support the widening of the WTO's membership in accordance with established WTO rules and practices;
- agree to promote public support for the multilateral system by encouraging greater transparency in the WTO, as in other international organisations;
- reaffirm our support for efforts to complete existing multilateral commitments, push forward the built-in agenda and tackle new areas in pursuing broad-based multilateral liberalisation;
- confirm our wish to see emerging and developing economies participate fully and effectively in the multilateral trade system; commit ourselves to deliver early, tangible benefits from this participation to help generate growth and alleviate poverty in these countries; and undertake to help least developed countries by:
  - ♦ providing additional duty-free access for their goods, if necessary on an autonomous basis,
  - ♦ ensuring that rules of origin are transparent,
  - ♦ assisting efforts to promote regional integration,
  - ♦ helping their markets become more attractive and accessible to investment and capital flows.

6. The last point highlights one of the most difficult challenges the world faces: to enable the **poorer developing countries**, especially in **Africa**, develop their capacities, integrate better into the global economy and thereby benefit from the opportunities offered by globalisation. We are encouraged by the new spirit of hope and progress in Africa. The challenges are acute, but confidence that they can be overcome is growing. We commit ourselves to a real and effective partnership in support of these countries' efforts to reform, to develop, and to reach the internationally agreed goals for economic and social development, as set out in the OECD's 21<sup>st</sup> Century Strategy. We shall therefore work with them to achieve at least primary education for children everywhere, and to reduce drastically child and maternal mortality and the proportion of the world's population living in extreme poverty.

7. To help achieve these goals, we intend to implement fully the vision we set out at Lyon and Denver. We therefore pledge ourselves to a shared international effort:

- to provide effective support for the efforts of these countries to build democracy and good governance, stronger civil society and greater transparency, and to take action against corruption, for example by making every effort to ratify the OECD Anti-Bribery Convention by the end of 1998;

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- to recognise the importance of substantial levels of development assistance and to mobilise resources for development in support of reform programmes, fulfilling our responsibilities and in a spirit of burden-sharing, including negotiating a prompt and adequate replenishment of the soft loan arm of the World Bank (IDA 12) as well as providing adequate resources for the Enhanced Structural Adjustment Facility of the IMF and for the African Development Fund;
- to work to focus existing bilateral aid and investment agency assistance in support of sound reforms, including the development of basic social infrastructure and measures to improve trade and investment;
- to work within the OECD on a recommendation on untying aid to the least developed countries with a view to proposing a text in 1999;
- to support the speedy and determined extension of debt relief to more countries, within the terms of the Heavily Indebted Poor Countries (HIPC) Initiative agreed by the International Financial Institutions (IFIs) and Paris Club. We welcome the progress achieved with six countries already declared eligible for HIPC debt relief and a further two countries likely to be declared shortly. We encourage all eligible countries to take the policy measures needed to embark on the process as soon as possible, so that all can be in the process by the year 2000. We will work with the International Institutions and other creditors to ensure that when they qualify, countries get the relief they need, including interim relief measures whenever necessary, to secure a lasting exit from their debt problems. We expect the World Bank to join the future financial effort to help the African Development Bank finance its contribution to the HIPC initiative;
- to call on those countries who have not already done so to forgive aid-related bilateral debt or take comparable action for reforming least developed countries;
- to enhance mutual cooperation on infectious and parasitic diseases and support the World Health Organisation's efforts in those areas. We support the new initiative to "Roll Back Malaria" to relieve the suffering experienced by hundreds of millions of people, and significantly reduce the death rate from malaria by 2010. We will also continue our efforts to reduce the global scourge of AIDS through vaccine development, preventive programmes and appropriate therapy, and by our continued support for UNAIDS. We welcome the French proposal for a "Therapeutic Solidarity Initiative" and other proposals for the prevention and treatment of AIDS, and request our experts to examine speedily the feasibility of their implementation.

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8. We see a particular need to strengthen Africa's ability to prevent and ease conflict, as highlighted in the UN Secretary General's recent report. We will look for ways to enhance the capacity of Africa-based institutions to provide training in conflict prevention and peacekeeping. We also need to consider further ways to respond to the exceptional needs of poor post-conflict countries as they rebuild their political, economic and social systems, in a manner consistent with democratic values and respect for basic human rights. In addition to immediate humanitarian assistance:

- we recognise the need for technical and financial assistance in creating strong democratic and economic institutions, supporting good governance alongside programmes of macroeconomic and structural reform supported by the IMF and World Bank. We call on the World Bank to play a strong role in co-ordinating bilateral and multilateral assistance in these areas;
- we also agree on the need to consider ways for debt relief mechanisms, including the HIPC initiative where appropriate, to be used to release more and earlier resources for essential rehabilitation, particularly for those countries with arrears to the IFIs.

9. A crucial factor in ensuring sustainable development and global growth is an efficient **energy** market. We therefore endorse the results of our Energy Ministers' Meeting in Moscow in April. We shall continue cooperation on energy matters in the G8 framework. We recognise the importance of soundly based political and economic stability in the regions of energy production and transit. With the objective of ensuring reliable, economic, safe and environmentally-sound energy supplies to meet the projected increase in demand, we commit ourselves to encourage the development of energy markets. Liberalisation and restructuring to encourage efficiency and a competitive environment should be supported by transparent and non-discriminatory national legislative and regulatory frameworks with a view to establishing equitable treatment for both government and private sectors as well as domestic and foreign entities. These are essential to attract the new investment which our energy sectors need. We also recognise the importance of international co-operation to develop economically viable international energy transmission networks. We shall pursue this co-operation bilaterally and multilaterally, including within the framework and principles of the Energy Charter Treaty.

10. Considering the new competitive pressures on our electric power sectors, we reaffirm the commitment we made at the 1996 Moscow Summit to the safe operation of nuclear power plants and the achievement of high safety standards worldwide, and attach the greatest importance to the full implementation of the Nuclear Safety Account grant agreements. We reaffirm our commitment to the stated mission of the Nuclear Safety Working Group (NSWG). We agreed to deepen Russia's role in the activities of the NSWG, with a view to eventual full membership in the appropriate circumstances. We acknowledge successful cooperation on the pilot project of the International Thermonuclear

Experimental Reactor (ITER) and consider it desirable to continue international cooperation for civil nuclear fusion development.

11. The greatest environmental threat to our future prosperity remains **climate change**. We confirm our determination to address it, and endorse the results of our Environment Ministers' meeting at Leeds Castle. The adoption of a Protocol with legally binding targets was a historic turning point in our efforts to reduce greenhouse gas emissions. We welcome the recent signature of the Protocol by some of us and confirm the intention of the rest of us to sign it within the next year, and resolve to make an urgent start on the further work that is necessary to ratify and make Kyoto a reality. To this end:

- we will each undertake domestically the steps necessary to reduce significantly greenhouse gas emissions;
- as the Kyoto protocol says, to supplement domestic actions, we will work further on flexible mechanisms such as international market-based emissions trading, joint implementation and the clean development mechanism, and on sinks. We aim to draw up rules and principles that will ensure an enforceable, accountable, verifiable, open and transparent trading system and an effective compliance regime;

- we will work together and with others to prepare for the Buenos Aires meeting of COP4 this autumn. We will also look at ways of working with all countries to increase global participation in establishing targets to limit or reduce greenhouse gas emissions. We will aim to reach agreement as soon as possible on how the clean development mechanism can work, including how it might best draw on the experience and expertise of existing institutions, including the Global Environment Facility. We look forward to increasing participation from developing countries, which are likely to be most affected by climate change and whose share of emissions is growing. We will work together with developing countries to achieve voluntary efforts and commitments, appropriate to their national circumstances and development needs. We shall also enhance our efforts with developing countries to promote technological development and diffusion.

12. The recent devastating forest fires in south-east Asia and the Amazon, threatening not only our environment but even economic growth and political stability, illustrate the crucial importance of global cooperation, and of better and more effective frameworks and practical efforts designed to sustainably manage and conserve forests. In the year 2000 we will assess our progress on implementation of the G8 Action Programme published last week. We strongly support the ongoing work on forests under the auspices of the United Nations, and we look forward to continuing these efforts.



## Growth, employability, and inclusion

13. All our people, men and women, deserve the opportunity to contribute to and share in national prosperity through work and a decent standard of living. The challenge is how to reap the benefits of rapid technological change and economic globalisation whilst ensuring that all our citizens share in these benefits by increasing growth and job creation, and building an inclusive society. To accomplish this, we recognise the importance of modernising domestic economic and social structures within a sound macro-economic framework. To these ends we strongly endorse the seven principles agreed by the G8 Finance, Economic, Labour and Employment Ministers at their London Conference in February on "Growth, Employability and Inclusion". We also welcome the conclusions of the Kobe Jobs Conference of November 1997, with their particular focus on active ageing.

14. We discussed and welcomed the Action Plans we have each produced to show how the seven principles of the London Conference are being implemented. By sharing national experiences and best practices in this area, we can improve our policies and responses. We underlined the importance of the involvement of employers and unions in securing successful implementation of these Plans.

15. The Action Plans show that individually we are all making new commitments to improve employability and job creation in our countries. In particular, we have committed ourselves to:

- measures to help young, long-term unemployed and other groups hard hit by unemployment find work;
- measures to help entrepreneurs to set up companies;
- carrying out structural reforms, including making tax and benefit systems more employment friendly and liberalisation of product markets;
- measures to promote lifelong learning.

16. Each country confirmed its determination to introduce the measures set out in its Action Plans and to pursue the concept of active ageing. Measures on active ageing should explore what forms of work are appropriate to the needs of older workers and adapt work to suit them accordingly.

17. These measures will help generate soundly-based and equitable growth. We are also willing to share our principles and experiences, including in the relevant international institutions particularly the ILO, OECD and the IFIs, to help foster growth, jobs and inclusion not only in the G8 but throughout the world. We renew our support for global progress towards the implementation of internationally recognised core labour standards, including continued collaboration between the ILO and WTO secretariats in accordance with

the conclusions of the Singapore conference and the proposal for an ILO declaration and implementation mechanism on these labour standards.

## Combating drugs and international crime

18. Globalisation has been accompanied by a dramatic increase in transnational crime. This takes many forms, including trafficking in drugs and weapons; smuggling of human beings; the abuse of new technologies to steal, defraud and evade the law; and the laundering of the proceeds of crime.

19. Such crimes pose a threat not only to our own citizens and their communities, through lives blighted by drugs and societies living in fear of organised crime; but also a global threat which can undermine the democratic and economic basis of societies through the investment of illegal money by international cartels, corruption, a weakening of institutions and a loss of confidence in the rule of law.

20. To fight this threat, international cooperation is indispensable. We ourselves, particularly since the Lyon summit in 1996, have sought ways to improve that cooperation. Much has already been achieved. We acknowledge the work being done in the UN, the EU and by other regional groupings. We welcome the steps undertaken by the G8 Lyon Group to implement its 40 Recommendations on transnational organised crime and the proposals G8 Justice and Interior Ministers announced at their meeting in Washington last December. By working together, our countries are helping each other catch criminals and break up cartels. But more needs to be done. There must be no safe havens either for criminals or for their money.

21. We have therefore agreed a number of further actions to tackle this threat more effectively:

- We fully support efforts to negotiate within the next two years an effective **United Nations convention** against transnational organised crime that will provide our law enforcement authorities with the additional tools they need.
- We agree to implement rapidly the ten principles and ten point action plan agreed by our Ministers on **high tech crime**. We call for close cooperation with industry to reach agreement on a legal framework for obtaining, presenting and preserving electronic data as evidence, while maintaining appropriate privacy protection, and agreements on sharing evidence of those crimes with international partners. This will help us combat a wide range of crime, including abuse of the Internet and other new technologies.
- We welcomed the GATT decision to continue and enlarge its work to combat **money-laundering** in partnership with regional groupings. We place special emphasis on the issues of money laundering and financial crime, including issues raised by offshore financial centres. We welcome the proposal to hold in Moscow

In 1999 a Ministerial meeting on combating transnational crime. We agreed to establish Financial Intelligence Units (FIUs) where we do not already have them, in line with our national constitutions and legal systems, to collect and analyse information on those engaged in money laundering and liaise with the equivalent agencies in partner countries. We agreed on principles and the need for adequate legislation to facilitate **asset confiscation** from convicted criminals, including ways to help each other trace, freeze and confiscate those assets, and where possible, in accordance with national legislation, share seized assets with other nations.

- We agree on the need to explore ways of combating official **corruption** arising from the large flows of criminal money.
- We are deeply concerned by all forms of **trafficking of human beings** including the smuggling of migrants. We agreed to joint action to combat trafficking in women and children, including efforts to prevent such crimes, protect victims and prosecute the traffickers. We commit ourselves to develop a multidisciplinary and comprehensive strategy, including principles and an action plan for future cooperation amongst ourselves and with third countries, including countries of origin, transit and destination, to tackle this problem. We consider the future comprehensive UN organised crime convention an important instrument for this purpose.
- We endorse **joint law enforcement** action against organised crime and welcome the cooperation between competent agencies in tackling criminal networks. We agree to pursue further action, particularly in dealing with major smuggling routes and targeting specific forms of financial fraud.
- We endorse the Lyon Group's principles and action plan to combat illegal manufacturing and trafficking of **firearms**. We welcome its agreement to work towards the elaboration of a binding international legal instrument in the context of the UN transnational organised crime convention.

22. We urge the Lyon Group to intensify its on-going work and ask our Ministers to report back to our next Summit on progress on the action plan on high tech crime, the steps taken against money laundering and the joint action on trafficking in human beings. We also welcome the steps agreed by our Environment Ministers on 5 April to combat **environmental crime**.

23. There is a strong link between **drugs** and wider international and domestic crime. We welcome the forthcoming UNGASS on drugs. This should signal the international community's determination in favour of a comprehensive strategy to tackle all aspects of the drugs problem. For its part, the G8 is committed to partnership and shared responsibility in the international community to combat illicit drugs. This should include reinforced cooperation to curb illicit trafficking in drugs and chemical precursors, action to

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reduce demand in our countries, including through policies to reduce drug dependency, and support for a global approach to eradicating illicit crops. We welcome the UNDCP's global approach to eliminating or significantly reducing illicit drug production, where appropriate through effective alternative development programmes.

## Non-Proliferation and Export Controls

24. The proliferation of weapons of mass destruction and their delivery systems threatens the security of every nation. Our countries have been in the forefront of efforts to prevent proliferation, and we have worked closely together to support international non-proliferation regimes. We pledge to continue and strengthen this co-operation. As a key element of this co-operation, we reaffirm our commitment to ensure the effective implementation of export controls, in keeping with our undertakings within the non-proliferation regimes. We will deny any kind of assistance to programmes for weapons of mass destruction and their means of delivery. To this end, we will where appropriate undertake and encourage the strengthening of laws, regulations and enforcement mechanisms. We will likewise enhance amongst ourselves and with other countries our co-operation on export control, including for instance on the exchange of information. We will ask our experts to focus on strengthening export control implementation. And we will broaden awareness among our industrial and business communities of export control requirements.

## Year 2000 Bug

25. The Year 2000 (or Millennium) Bug problem, deriving from the way computers deal with the change to the year 2000, presents major challenges to the international community, with vast implications, in particular in the defence, transport, telecommunications, financial services, energy and environmental sectors, and we noted the vital dependence of some sectors on others. We agreed to take further urgent action and to share information, among ourselves and with others, that will assist in preventing disruption in the near and longer term. We shall work closely with business and organisations working in those sectors, who will bear much of the responsibility to address the problem. We will work together in international organisations, such as the World Bank to assist developing countries, and the OECD, to help solve this critical technological problem and prepare for the year 2000.

## Next Summit

26. We accepted the invitation of the Chancellor of the Federal Republic of Germany to meet again next year in Köln on 18-20 June.

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## **G8 BIRMINGHAM SUMMIT**

### **NORTHERN IRELAND**

We warmly welcome the Belfast Agreement reached on 10 April. We commend all those involved in achieving an outcome which reflects the fundamental aspirations of both parts of the community in Northern Ireland and secures their rights. We recognise that the Agreement must win the support of the people in Northern Ireland and the Republic of Ireland. While acknowledging that it presents challenges to all parties, we hope it will achieve the widest possible support, not only as a basis for political stability and peace but also as an opportunity for economic development and prosperity for all Northern Ireland's people. We pledge our countries' support for this process.

### **INDONESIA**

We are deeply concerned at the situation in Indonesia, especially the recent upsurge of violence and the loss of life. We deplore the killings and urge the authorities to show maximum restraint, to refrain from the use of lethal force and to respect individual rights. We call on the public to express their views peacefully. It is essential to avoid an escalation of violence.

We recognise the hardship the economic crisis has caused. We believe the economic reform programme agreed with and supported by the international financial institutions is the only way to restore confidence and growth, and fully support the government in implementing it. But successful economic reform and international support for it will require sufficient political and social stability. We will continue to work, together with the international financial institutions, to support reform and alleviate hardship.

The current social unrest indicates that, to resolve the crisis, political as well as economic reform is necessary. The need for political reform is widely acknowledged in Indonesia. We encourage the authorities to respond rapidly, by opening a dialogue which addresses the aspirations of the Indonesian people and by introducing the necessary reforms.

## **FRY/KOSOVO**

The continuing violence in Kosovo has revived fears of a new Balkans war. The region has already seen too much bloodshed. A political solution to the problem of Kosovo is vital for the peace and well-being of all the people of the region.. We consider the meeting on 15 May between President Milosevic and Dr Rugova to be a positive first step. It is particularly important that President Milosevic has assumed personal responsibility in the search for a resolution of the problems of Kosovo, including its future status. We urge both sides to ensure that the dialogue now begun leads rapidly to the adoption of concrete measures to lower tensions and stop violence. Resolving the issue of Kosovo's status will be difficult but is essential for the good of all those living in the Federal Republic of Yugoslavia.

Peace and stability in Europe rest on the principles that borders are inviolable and that political change must come about through peaceful means. We reject terrorism and violence from any side to achieve political goals or to stifle dissent. The states of the region should themselves contribute to a non-violent solution to the crisis. All states should cooperate in addressing the problem of refugees and displaced persons.

We underline the importance of cooperation with the Gonzalez mission. We stand ready to promote a clear and achievable path towards the FRY's full integration into the international community. But if Belgrade fails to build on recent progress and a genuine political process does not get underway, its isolation will deepen.

The elections in Montenegro on 31 May must be free, fair and in keeping with democratic standards and their results must be respected by all.

## **BOSNIA AND HERZEGOVINA**

We welcome the progress that has recently been made on peace implementation in Bosnia and Herzegovina and support the High Representative's active role in promoting the peace process. This is a critical year for consolidating peace in Bosnia, especially for refugee returns and democratic development, with nationwide elections scheduled for September. While the people of Bosnia have accomplished a great deal under very difficult circumstances, we look to Bosnia's leaders to work harder to create a stable and prosperous future for all the country's citizens.

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## **MIDDLE EAST PEACE PROCESS**

We are deeply concerned at the continuing stalemate in the peace process, with concluded agreements not yet being implemented. We encourage all efforts to help revive the peace process. We strongly support the efforts to gain the agreement of the parties to a package of constructive and realistic ideas which have already been presented by the United States, including a second Israeli redeployment. We welcome Palestinian agreement in principle to these ideas which, if accepted by all sides, would lead to the resumption of final status talks. We call on Israeli and Palestinian leaders to refrain from unilateral acts which pre-determine the final status negotiations and undermine confidence. We remain determined to work with all the parties – Israel, the Palestinians, Syria, Lebanon – for a comprehensive peace. A resumption of Israeli-Palestinian negotiations would build confidence in the region and help to restore momentum to the peace process as a whole. A continuing blockage on the other hand could have grave consequences for security throughout the region.

## **INDIAN NUCLEAR TESTS**

We condemn the nuclear tests which were carried out by India on 11 and 13 May. Such action runs counter to the will expressed by 149 signatories to the CTBT to cease nuclear testing, to efforts to strengthen the global non-proliferation regime and to steps to enhance regional and international peace and security. It has been met by immediate international concern and opposition, from governments and more widely. We underline our full commitment to the Non-Proliferation Treaty and to the Comprehensive Test Ban Treaty as the cornerstones of the global non-proliferation regime and the essential foundations for the pursuit of nuclear disarmament. We express our grave concern about the increased risk of nuclear and missile proliferation in South Asia and elsewhere. We urge India and other states in the region to refrain from further tests and the deployment of nuclear weapons or ballistic missiles. We call upon India to rejoin the mainstream of international opinion, to adhere unconditionally to the NPT and the CTBT and to enter into negotiations on a global treaty to stop the production of fissile material for nuclear weapons. India's relationship with each of us has been affected by these developments. We are making this clear in our own direct exchanges and dealings with the Indian Government and we call upon other states similarly to address their concerns to India. We call upon and encourage Pakistan to exercise maximum restraint in the face of these tests and to adhere to international non-proliferation norms.

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## **RESPONSE BY THE PRESIDENCY ON BEHALF OF THE G8 TO THE JUBILEE 2000 PETITION**

On behalf of the G8 Heads of State and Government gathered here in Birmingham, I welcome the commitment so many of you have shown today to help the poorest countries in the world. Your presence here is a truly impressive testimony to the solidarity of people in our own countries with those in the world's poorest and most indebted. It is also a public acknowledgement of the crucial importance of the question of debt.

I can assure you that all leaders here fully share your concern over the debt burden faced by many poor countries. More than that, we are all committed to helping heavily indebted poor countries free themselves from the burden of their unsustainable debts. This is why over the years we have, where possible, cancelled bilateral aid debt and in the context of the Paris Club rescheduled or cancelled substantial proportions of other bilateral debt. Aware that this still was not enough, we initiated in Lyon two years ago, the Heavily Indebted Poor Countries Initiative designed to ensure a sustainable exit from their debt burden for all the most affected countries. Over the last three years, official creditors in the Paris Club have forgiven in favour of the poorest countries US\$ 8 billion with more than US\$ 5 billion of that relief going to Africa.

Since then we have focused our attention on implementing the Initiative successfully. This requires a partnership between creditors and debtors and effort on both sides. Debt relief in itself is no magic solution; it can only be part of the answer to achieving sustainable development. Where a country shows a real will to pursue policies that will relieve poverty and build a sound economy, we will do our part and contribute the funds necessary to reduce their debt burden to a sustainable level. This will ensure that the resources freed up are put to good, productive use, generating growth and bringing real benefits – in the form of better education, better health, and sound, honest government – to the poorest people. We will continue to support such efforts through our development assistance programmes, through which G8 countries currently deliver some US\$10 billion a year to heavily indebted poor countries.



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So far six countries have qualified for debt relief from the HIPC initiative totalling around US\$ 5.7 billion. Among those six countries, Uganda has been the first to complete the process, recently receiving additional debt relief of nearly US\$ 650 million. In addition to these countries, two more countries have already benefited from preliminary positive indications regarding their possible eligibility under the HIPC Initiative.

Our ambition, reaffirmed by all G8 leaders today, is to ensure the speedy and determined implementation of the Initiative and encourage all eligible countries to take the policy measures needed to embark on the process as soon as possible, so that all can be in the process by the year 2000. We will work with the others concerned to ensure that all eligible countries get the relief they need to secure a lasting exit from their debt problems. We are keenly aware of the importance of making progress. For the sake of our citizens in our own and all other countries, we must not fail.

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Friday, May 15, 1998

## **G7 CHAIRMAN'S STATEMENT**

1. The Heads of State or Government of the G7 countries and the President of the European Commission met today, 15 May, to discuss the world economic and financial situation, and the challenges we face in strengthening the global financial system.

### The World Economy

2. We discussed recent developments in our own economies and economic developments in the rest of the world. In our own economies we will work together to achieve sustained non-inflationary growth. Such growth and stability are more important than ever, not only for our own economies, but also for other economies in the world, particularly the recovering economies in Asia.

3. We also agreed that the challenges facing each of our own economies remain different:

- the US, Canada and the UK have enjoyed continued strong growth. In these countries the task is to sustain growth while standing ready to prevent any possible resurgence in inflationary pressures and while increasing national savings in the US;
- In Germany, France and Italy, economic growth gained momentum last year and is now strengthening further; it is important that it be increasingly supported by domestic demand, which will have a positive effect on employment. Continuing structural reform is also essential to improve the longer term prospects for growth and employment.
- We strongly welcome the Japanese Government's substantial economic policy package announced last month and the progress toward implementation to revive confidence and to achieve long-lasting domestic demand-led growth. Japan explained its intention to strengthen the financial system, including by resolving decisively non-performing asset problems, and stressed the importance of promoting structural reforms.

4. We welcome the decisions taken on 2 May on the establishment of European Economic and Monetary Union. We look forward to a successful EMU which contributes to the stability of the international monetary system. The commitment in European Union countries to sound fiscal policies and continuing structural reform is key to the long term success of EMU, and to improving the prospects for growth and employment.

5. We recognise that all countries in the world have an interest in growth and stability in our countries. Equally we have an interest in sustained growth and stability in their economies. While we are encouraged by the progress in implementing sound policies in emerging markets that have been affected by the Asian crisis, events in recent days demonstrate that the situation remains fragile. In particular, we welcome the contribution made to global stability by the pursuit of sound economic and financial policies. Moreover, prompt action by some emerging and transition countries to strengthen their economic policies has helped limit spillover effects. Sound macroeconomic policies, open markets and continued structural reform in all countries are essential for long term stability in the world. Recent experience emphasises the importance also of good public governance.

#### Strengthening the Global Financial System

6. Globalisation has the power to bring immense economic benefits to all countries and people. But the Asian financial crisis has revealed that there are potential weaknesses and vulnerabilities in the global financial system. In particular we are conscious of the serious human and social consequences of such crises when they occur. We therefore see an urgent need to take steps to strengthen the global financial architecture, to reduce the risks of such crises recurring in future and to produce a system that is more robust to shocks when they occur.

7. Previous summits have also dealt with ways of strengthening the global financial system, and this should be seen as a continuing process of reform. It is essential for individual countries to pursue sound economic policies, open markets and good governance, if stability is to be achieved. At the same time we confirm the central role we see for the International Financial Institutions (IFIs) in promoting these sound policies, in helping to prevent failures in future and in responding when crises occur. Their response has been crucial in addressing recent problems and we must find ways to strengthen their role in the future.

8. We welcome and endorse the report by our Finance Ministers on ways to strengthen the global financial architecture. Of their ideas, we attach particular importance to the following:

- **increasing transparency:**
  - encouraging IMF members to provide more accurate and accessible financial data for example by subscribing to its Special Data Dissemination Standards and identifying publicly those who fail to meet the Standards;
  - welcoming the adoption of a code of good practice on transparency in fiscal policy and encouraging its promotion and supporting consideration by the IMF of a similar code of good practice for financial and monetary policy.

encouraging the IMF to publish more information about its members and their policies, including its concerns about members' policy making and vulnerabilities; and also to publish more information about its own decision making.

- **helping countries throughout the world prepare for global capital flows:**
  - providing advice on how best to manage orderly capital account liberalisation and assisting them with the required strengthening of domestic policies and institutions.
  - urging the IMF to examine how to monitor effectively capital flows, particularly short term flows, to provide information and promote market stability.
- **strengthening national financial systems:**
  - encouraging all countries to adopt and implement the Basle Core Principles on Effective Banking Supervision.
  - developing international codes and guidelines for corporate governance and accounting principles.
  - establishing a system of multilateral surveillance of national financial, supervisory and regulatory systems. Our Finance Ministers will consider ways, and have asked the relevant international institutions to develop proposals on ways to achieve greater co-operation in this area, including options for institutional reform.
- **ensuring that the private sector takes full responsibility for its own decisions in order to reduce moral hazard:**
  - developing a framework to ensure that the private sector plays a timely and appropriate role in the resolution of financial crises.
  - asking the IMF to signal that in the event of a crisis it will be prepared to consider lending to countries that are in arrears, including in situations where debt standstills have arisen, if the debtor country adopts appropriate adjustment policies.
  - encouraging clauses in international bond issues that allow for re-negotiation in the event of default.

9. We ask our Finance Ministers to take forward these ideas in co-operation and discussion with emerging market and other countries, with the International Financial Institutions and the private sector. We also ask our Finance Ministers to consider further how the existing global discussion fora, particularly the IMF's Interim Committee, could be developed to permit a deeper and more effective

dialogue. We hope firm proposals on all these issues can be put forward for decision later this year, and we ask our Finance Ministers to report to us on progress without delay.

#### Ukraine

10. We renewed our resolve to work with Ukraine to implement strong financial and economic reform. We look forward to the Ukrainian government and parliament taking the steps necessary to agree on an Extended Financing Facility with the IMF.

11. We reaffirmed our commitment to the full implementation of the Memorandum of Understanding (MoU) between the G7 and Ukraine. In addition we have made a major effort with the funding of the Shelter Implementation Plan. We note that the funding from the G7 and other International donors envisaged under the MoU is dependent on the closure of Chernobyl taking place on schedule by the year 2000. The safety of Chernobyl Unit 3 is already giving rise to concern.

12. We commend the Ukrainian Government's decision to adopt a Financial Recovery Plan for the energy sector. We look to the Government of Ukraine to implement the fundamental reforms which are needed to make investments in the energy sector and elsewhere financially viable. With the Financial Recovery Plan in place, we look to the EBRD to complete its review of the Khmelnytsky 2 and Rovno 4 (K2/R4) project swiftly and to contribute substantially to a successful loan package, while respecting the Bank's due diligence requirements. This, like the other funding, will of course depend on the Ukrainian Government fulfilling its undertakings under the MoU.

## **STRENGTHENING THE ARCHITECTURE OF THE GLOBAL FINANCIAL SYSTEM**

### **Report of G7 Finance Ministers to G7 Heads of State or Government for their meeting in Birmingham May 1998**

Previous summits have focussed on ways to strengthen the global financial system. Over the past four years considerable progress has been made in the face of rapid globalisation and technical change in developing and implementing specific recommendations. However, the process of globalisation and recent events in Asia have revealed a number of weaknesses and vulnerabilities in national and international financial systems, as well as in the borrowing and lending practices of banks and investors. We therefore need to act to strengthen the global financial system, both to reduce the likelihood of such crises occurring in future and to improve our techniques for handling crises when they do occur.

2. This report presents proposals where there is now an emerging consensus for modifications to the architecture of the International financial system. It does not, however, complete the process. There are important aspects of the issues discussed that require further work. Discussion within our countries, with emerging market countries and other interested countries, with the International Financial Institutions and with the private sector will continue over the coming months.

3. We have identified the need for action in five key areas:

- enhanced transparency;
- helping countries prepare for integration into the global economy and for free global capital flows;
- strengthening national financial systems;
- ensuring that the private sector takes responsibility for its lending decisions;
- enhancing further the role of the International Financial Institutions and co-operation between them.

This report outlines how work is being taken forward in each of these areas and signals a number of areas for further work.

4. Broad based prosperity and growth require financial institutions, commercial enterprises and entrepreneurial individuals that are prepared to take risks. Risk inevitably involves the possibility of failure. We could not and should not seek to eliminate failure entirely, rather large financial systems need to be robust enough to accommodate the occasional failure and to contain risks which might threaten the whole financial system. And borrowers and lenders, be they governments, companies or individuals should be responsible for their decisions and actions. The principles and measures set out below are designed to help meet these objectives.

5. This report focuses on a range of areas where specific changes could help prevent and handle future crises. This focus should not undermine the important message that, as far as individual countries are concerned, the pursuit of sound economic policies that promote sustainable broad based non-inflationary growth is the most important single contribution to avoiding a crisis. And when countries implement an IMF supported reform programme, their commitment to and ownership of the programme is crucial to its success. Sound policies need to tackle structural economic issues so that sufficient provision is made for the poorest sections of society and other vulnerable groups, development is sustainable and living and working standards for all are improved. This is also key to securing the support needed for successful economic reform. In this respect we also encourage the IMF and MDBs to work with the ILO to promote core labour standards and with the competent international institutions to promote sound environmental standards.

## **Transparency**

### Disclosure of data and information

6. Accurate and timely economic data are essential for prudent economic management, improved risk assessment by investors, enhanced market stability, and effective surveillance. The Asian crisis has revealed the need, for example, for better and more timely information on countries' official international reserve assets and reserve-related liabilities and on the short term external assets and liabilities of the financial sector.

7. Work is underway to improve the timeliness and accuracy of data.

- We welcome the efforts of the Bank for International Settlements (BIS), working with national authorities, to continue to speed up the collection and publication of data on the level of external bank exposure and to improve the quality of that data.
- The IMF should continue to look at ways of encouraging its members to provide transparent data, including for example through its surveillance work and in particular by encouraging countries to subscribe to its Special Data Dissemination Standards (SDDS). It is working to update the standards to include internationally comparable measures of reserves, the external exposure of financial sectors and indicators of financial sector stability. It should examine the best approach for improving the quality of data on external debt of the corporate sector. It needs to ensure member countries that subscribe to these standards implement them fully. The Fund should find ways of publicising failures to meet the standards, perhaps by detailing complaints on its Internet Bulletin Board and by publicly removing countries from the SDDS if they fail to remedy such failures. We recognise that this is a major investment for emerging market countries and call for technical assistance to be made available to assist them in their efforts.

- We also encourage the private sector to make full use of the SDDS as a source of information on economic and financial statistics, and as an indicator of the transparency and quality of national data, and to play their part in the ongoing effort to improve data standards.

8. In addition, it would be useful if countries were to provide more qualitative descriptive information on their financial systems, markets, institutions, laws, and other aspects of the financial sector including detail on banking supervision, bankruptcy procedures and the credit culture, skills and structure of banking sectors, including the relationship between banks and the government and industrial sector. We need to consider further, in conjunction with the International Financial Institutions, who should collect this information and how it should be published.

#### Openness in policy making

9. More openness in national policy making could have helped anticipate the crisis, and more generally helps to inform the market as well as promote public understanding and support for sound policies.

- In this context, we particularly welcome the IMF's Code of Good Practices on Fiscal Transparency. We also welcome the IMF's decision to examine the case for developing a similar code for financial and monetary policy. We think the code on fiscal transparency, and a further code on financial and monetary policy, would provide useful benchmarks for assessing the openness of policy making during Article IV consultations. We will also be encouraging the Multilateral Development Banks to promote the code.
- We encourage the IFIs to place more emphasis on governance issues and the openness of the policy making process in their operations and surveillance work.

#### Openness at the International Financial Institutions

10. The Fund and World Bank have traditionally communicated their concerns and recommendations for policy action in confidence. This avoids the risk of provoking an undue market reaction and gives countries the opportunity to take action on their own account. However, we think there is a case for greater openness at the Fund and the World Bank, as well as for encouraging members to comply with the standards they and others set and advice they provide.

11. It is important for the IMF and World Bank to publish information on member countries on a regular basis to help investors take better informed decisions. The World Bank and the MDBs have made substantial progress on this front over a period of years. The IMF has also taken steps to provide more information in recent years. In particular the introduction of Press Information Notices (PINS) last year was an important step forward in enhancing transparency. These enable members to release the conclusions of IMF Article IV consultations, if they choose to do so.



- We need to consider how to build on recent work by the IMF to increase its openness. Options include working towards timely and systematic publication of PINS for all Article IV consultations, publication of letters of intent and policy framework papers, and including more country detail in the IMF's World Economic Outlook. It is also important for the IMF and World Bank to consider building incentives for countries to publish such information, for example in programme design.
- At the World Bank, we believe further serious consideration should be given to developing a policy with regard to Country Assistance Strategies aimed at increasing their disclosure.
- There should be further consideration of the possibility of the IMF developing a mechanism of "tiered responses" to communicate with the Board and with countries when advice is ignored. In addition, it may be helpful for the Fund to make public statements of concern about its assessment of countries' policy making and vulnerabilities.
- We also encourage the IMF and World Bank to consider ways of doing more to explain their policies and processes in public - in order to promote better understanding of their role in the global economy. We welcome the steps the IMF has taken to arrange external evaluations of some of its activities. We encourage it to explore ways of making this external evaluation more systematic.

### **Helping countries prepare for Global Capital Flows**

12. International capital flows enable a better global allocation of capital and foster economic development. However, events in Asia have shown that weaknesses can suddenly be exposed by global capital markets, making countries with weak fundamentals, including weak financial systems, more vulnerable to external shocks. It has also highlighted the dangers of poorly sequenced and unbalanced liberalisation.

- To ensure that the process of capital account liberalisation is orderly, it is important that sound macroeconomic policies and supervisory and regulatory practices are put in place. Correct management of the liberalisation process is crucial. And the process needs to be accompanied by reforms to strengthen the domestic financial system.
- The IMF has and should have an important role to play in this area, providing advice on how best to manage orderly capital account liberalisation and monitoring countries' vulnerability to capital flows.
- We support measures to improve the IMF's capital markets expertise, and to collect more information on levels of external debt as part of its regular surveillance work. In doing this, the Fund should collaborate with the World Bank, BIS and OECD.

- We urge the IMF and other fora to examine how to monitor effectively capital flows, including short-term capital flows, with a view to providing information to the market and promoting stability.

13. Capital account liberalisation should not be confused with open access to domestic markets for foreign firms.

- Open access to domestic markets for foreign firms can help with the development of the deep and liquid domestic financial markets, with soundly managed and well capitalised firms, that are needed to help improve the conditions for liberalising capital flows.

### **Strengthening National Financial Systems and Corporate Governance**

14. Weaknesses in the financial sectors in some Asian countries increased their vulnerability to external shocks. These weaknesses included over-extended lending to the property sector, the build up of large off-balance sheet positions, excessive exposure to highly leveraged borrowers, policy directed loans and excessive reliance on short-term borrowing in foreign currency. Had information about these developments been more widely available earlier, the international markets and international financial institutions might have been better placed to assess the risks in Asia and elsewhere. The crisis also highlighted weaknesses in risk assessment in our own financial sectors. Some institutions paid inadequate attention to risks. There is therefore a need for strengthened mechanisms to ensure appropriate risk analysis. This points to the need for enhanced international surveillance and improved prudential standards, and to the need to encourage internationally active financial institutions to act prudently on available information.

- Supervisors, co-operating at Basle and elsewhere, should work to encourage private sector financial institutions to adopt better systems in private sector financial institutions for country risk assessment.
- We need to continue to improve the supervision of large internationally active financial groups. A separate G7 report on financial stability addresses the need to improve co-operation and information sharing between national supervisors on the activities of such groups.
- Supervisors and regulators should consider how best to encourage individual banks and their supervisors to monitor the adequacy of foreign currency liquidity (maturity of liabilities in relation to assets) separately from domestic currency liquidity.

15. A primary need is to encourage countries to strengthen their own financial systems, to ensure that banks and other financial intermediaries have the information, skills and corporate incentives to take well founded credit and risk decisions, and are properly supervised and regulated; that corporate and financial sectors follow good accounting, disclosure and auditing practices; and to promote deeper, more transparent and more open local bond and equity markets that will provide alternative sources of finance to short-term foreign currency bank borrowing.

- In addition to the core principles for banking supervision, we also need to develop internationally accepted principles for auditing, accounting and disclosure in the corporate sector, together with arrangements for ensuring that these principles are put into practice.
- We also welcome the OECD's Initiative to develop standards and guidelines on corporate governance, and to report by Spring 1999.

16. Strong efforts are needed to ensure that sound and transparent standards are implemented. While this is primarily a matter for the national authorities concerned, incentives need to be put in place that will help deliver this. The primary incentive is the need for emerging markets to maintain confidence in order to access capital market. In addition:

- The Fund has taken steps to sharpen the focus of its surveillance of the financial sector, for example during Article IV consultations. We encourage the Fund to build on this in collaboration with the supervisors, and to promote the Basle Committee Core Principles on Effective Banking Supervision. Similarly we encourage the World Bank to strengthen its reviews of countries' financial sector policies and corporate governance, and highlight these issues in its Country Assistance Strategies.
- Further consideration should be given to how incentives to adopt, within a reasonable period of time, the core principles of financial supervision could be strengthened for example by making access by foreign financial institutions to major financial centres conditional in part on the implementation of adequate prudential and regulatory standards in their home countries.
- We encourage the World Bank and regional development banks to help foster transparent markets, open to all well founded financial institutions, skilled management, independent banks able to make professional credit and risk decisions, and market structures that support these objectives.

17. There is a gap in the current international system with respect to surveillance of countries' financial supervisory and regulatory systems. Enhanced surveillance in this area would help encourage national authorities to meet international standards and help reduce financial risk. Such assessments of supervision and regulation can lay the groundwork for policy discussions and appropriate assistance, where needed, from the IMF and MDBs for programmes to strengthen financial systems. We need to address how best to organise international work in this and related areas. A number of international institutions are involved in various aspects of policy advice in the regulation of national financial systems. Their functions include assistance at times of financial crisis, long-term systems building and regular surveillance. There is a case for considering how to co-ordinate this work more effectively.

- The International Financial Institutions and international regulatory bodies have an important role to play in providing technical assistance and advice to emerging markets on strengthening and restructuring financial systems. The World Bank has enhanced its capacity to provide advice on financial sector development, through the establishment of the Special Financial Operations Unit (SFOU) to provide assistance to crisis countries. Also the Basle Committee and the Bank for International Settlements have established an institute for financial stability at Basle.
- We see an urgent need for a system of multilateral surveillance of national financial, supervisory and regulatory systems. This could encompass surveillance of such areas as banking and securities supervision, corporate governance, accounting and disclosure, and bankruptcy. We are considering ways, and ask the relevant institutions to develop proposals on ways, in which greater co-operation can be achieved including options for institutional reform. In any event, this will include greater co-operation and an improved relationship among all these institutions, and drawing on national regulatory expertise. We will review progress on this important area by the autumn.

### **Burden sharing by the Private Sector and Moral Hazard**

18. The global economy needs private sector financial institutions that take risks on the basis of careful assessment. If such institutions believe that the entities to which they lend will be bailed out, they have no incentive to make a proper risk assessment. It is therefore important to ensure that the private sector takes responsibility for its own lending decisions. We also need approaches to ensure that the private sector is involved in crisis resolution, and bears the costs as well as the rewards of its lending decisions.

19. There will always be pressure in the event of a crisis to act quickly to stabilise the situation. We need to find ways in which this can be done without implicitly insuring debts to the private sector. It would be highly desirable to create in advance a framework for handling debt arrears to make it clear that all exposed institutions in the private sector will bear some costs.

- National policy should focus on creating the right incentives: by introducing effective bankruptcy laws; by making explicit and establishing financially viable deposit insurance schemes; and by ensuring that lender of last resort assistance in domestic currency is provided for illiquid institutions only when there is real systemic risk. These measures, along with improved prudential supervision, will help send the appropriate signals to the private sector.
- The IMF should signal that in the event of a crisis it will be prepared to consider lending to countries that are in arrears, including in situations where debt standstills have arisen, if the debtor country adopts appropriate adjustment policies.

20. There needs to be a framework for ensuring continuing private sector involvement when a country, or its financial or corporate sector, is facing difficulties in meeting its foreign currency liabilities as they fall due.

- We need further discussion with other countries and the private sector on how best to establish such a framework.
- In particular we should consider ways of giving effect to the G10 recommendations on flexible forms of debt agreements.

### **IFI Resources and Financing**

21. The response of the IMF and World Bank to the Asian crisis has confirmed their role at the centre of the international financial system. The Asian Development Bank has also played a crucial part in responding to the crisis. However, this has involved an unprecedented level of new commitments for the IMF and other International Financial Institutions. We need to address the increased demand on resources:

- To enable the IMF to play its central role in the international monetary system, it is essential to implement from January 1999 the increase in quotas as agreed under the IMF's recent Quota Review in order to ensure the IMF has sufficient usable resources. It is also essential to bring the New Arrangements to Borrow (NAB) into effect as soon as possible. We welcome the creation of the Supplemental Reserve Facility (SRF).

22. The Asian crisis also demonstrated that in special circumstances bilateral financing can provide a source of additional financing for balance of payments:

- It will be important to ensure that bilateral financing is developed in conjunction with the IMF, is consistent with the IMF response and does not undermine IMF conditionality.

23. We have suggested a number of ways to enhance the role of the IMF and World Bank.

- It will be important to consider whether the distribution of staff and resources needs to be adjusted to address the new priorities.
- Closer co-operation between the Bank and Fund will be particularly important to avoid overlap and maximise use of expertise.

### **Strengthening Global Dialogue**

24. These issues and our response to them have demonstrated the need for a more intensive global dialogue on developments in the global financial system between industrial and emerging market countries and countries in transition. We have had useful discussions over the last few months, in the lead up to the Birmingham Summit. We would like this report to be seen as a contribution to the

debate on the lessons of the Asian crisis, and we will continue to consult widely as we develop our thinking.

- Further thought is needed on how the existing global fora for discussion of such issues, in particular the IMF Interim Committee, could be developed to permit a deeper and more effective dialogue.