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International Monetary Fund
Washington, D.C. 20431 USA

**Communiqué of the International Monetary and Financial Committee of the Board of
Governors of the International Monetary Fund**

1. The International Monetary and Financial Committee held its third meeting in Washington, D.C. on April 29, 2001, under the Chairmanship of Mr. Gordon Brown, Chancellor of the Exchequer of the United Kingdom.

The World Economy

2. In the increasingly interconnected global economy, we will continue to promote international economic cooperation and work together, adopting a forward looking approach to meeting our common objective of open trade for greater global prosperity, maintaining the momentum for reform in the international financial system, strengthening our economies through structural reform, maintaining sound macroeconomic conditions for strong non-inflationary growth, and encouraging poverty reduction and growth in the poorest countries.

3. The Committee agrees that short-term prospects for global growth have weakened significantly since its September 2000 meeting in Prague. The Committee considers it likely that the slowdown in global growth will be short-lived, though it notes that the downside risks have increased. Underlying inflationary pressures generally remain subdued.

4. Against this background, the Committee stresses the need for policymakers in the advanced economies to remain vigilant and forward looking:

- In the United States—which has provided important support for the growth of the world economy in recent years—there has been a marked deceleration of activity. The significant easing of monetary policy in recent months is timely and welcome, and monetary policy should remain directed at restoring growth potential while maintaining price stability. The Committee considers that timely fiscal policy measures would also provide support to economic growth.
- In view of the persistence of slow growth in Japan, the Committee welcomes the recent introduction of a new monetary policy framework, and underscores the importance of the authorities' commitment to an expansionary policy stance until the risk of deflation is eliminated. Given the high level of public debt, the gradual fiscal

consolidation currently under way remains appropriate. Prospects for a return to sustained growth depend most critically on determined action to address structural weaknesses, especially in the financial and corporate sectors.

- In this context, growth in the euro area remains relatively well sustained, although a slowing in activity is under way. The Committee agrees that policies should continue to support confidence and strengthen growth potential. Fiscal policy needs to continue to be geared toward fiscal consolidation in the medium term. Tax reforms should contribute to enhanced economic efficiency. The Committee underscores the importance of a further deepening and acceleration of structural reforms, especially in labor and product markets and in strengthening pension systems, for boosting longer-term growth potential.

5. The Committee notes that other countries are being adversely affected by both the slowdown in growth in the advanced economies and the deterioration of conditions in international financial markets. The Committee, however, notes that growth is expected to be relatively well maintained in India and China. The Committee welcomes the steps taken by many emerging market economies in recent years to reduce external and financial sector vulnerabilities, including by adopting sustainable exchange rate regimes and prudent debt and reserve management policies. In view of the present fragility of external financing conditions, the prospects for emerging market economies depend critically on maintaining investor confidence, which, the Committee agrees, will require pursuing prudent macroeconomic policies and pressing ahead with corporate, financial, and institutional reforms. The Committee welcomes the recent comprehensive set of measures being implemented by the Argentine government to improve the underlying fiscal position and provide a strong basis for the sustained recovery of the economy, in line with the objectives of the IMF-supported program that is in place. It considers that these measures are an important and decisive step to boost confidence. The Committee also welcomes the comprehensive strategy of bank restructuring, fiscal consolidation, and structural reform initiated by the Turkish authorities. The Committee considers these policies, together with the provision of the needed external financing by the Fund and the Bank, provide the basis for the reestablishment of financial stability and sustained disinflation with growth, and merit the support of the international community and the private sector. The Committee looks forward to a rigorous implementation of all the necessary measures. The Committee welcomes the additional financing proposed by the Managing Director to support those policies, and looks forward to the forthcoming Executive Board discussions of these topics.

6. The Committee expresses particular concern that the slowdown in global growth risks adversely affecting the Fund's poorest member countries. The Committee stresses that developing countries need to pursue sound and stable policies and to build strong institutions as part of a commitment to poverty reduction and growth, and to create a favorable environment for domestic and foreign investment and private sector activity. The Committee emphasizes that the advanced economies have a special responsibility to assist poor countries' own efforts as they work to achieve the International Development Goals. This includes adequate flows of official development assistance, and carrying forward the HIPC

Initiative to deliver sustainable debt levels, as well as more rapidly and decisively opening their markets to developing countries' exports. The Committee welcomes recent market-opening actions, and urges all countries to remove remaining barriers to the exports of the poorest countries. The Committee looks forward to the joint meeting with the Development Committee later today. The Committee welcomes the cooperation of the Fund and Bank on the International Development Goals, addressing the importance of delivering on the commitments made at Dakar on education and the need for global action on health to address diseases such as the HIV/AIDS pandemic.

7. The Committee underscores more broadly the importance of open markets for strengthening the global economy and for enhancing the growth prospects of developing countries. It urges all countries—developed and developing—to find common ground for the launch of new multilateral trade negotiations this year. The Committee is unanimous in its view that recourse to protectionism would be the wrong response to the global economic slowdown and the attendant difficulties in particular sectors. The Committee calls upon all countries to resist protectionist pressures and to reduce or eliminate trade barriers and trade-distorting subsidies. Looking forward, it requests the Fund to pay attention to the effects of trade policy developments and to continue to encourage trade liberalization in the context of all its activities with its members, both developed and developing. The Committee welcomes and encourages greater cooperation between the Fund, the Bank, and the WTO.

The IMF in the Process of Change

A. Progress Report by the Managing Director

8. The Committee welcomes the work program outlined in the Managing Director's progress report. It welcomes the recent moves to refocus the Fund in order to maximize its effectiveness in reducing members' vulnerability to currency or balance of payments crises, and in supporting their policies toward promoting sustainable growth and poverty reduction. It considers that the Fund is appropriately focusing on:

- promoting macroeconomic and financial stability, as a precondition for sustained economic growth;
- promoting the stability and integrity of the international monetary and financial system, as a global public good; and
- helping member countries to develop sound financial sectors in order to protect against vulnerability, to mobilize financing for productive investment, and to take advantage of the opportunities of global financial markets.

9. The Committee endorses the further steps that are being taken to increase complementarity and strengthen cooperation with other organizations, especially the joint work with the World Bank in strengthening financial sectors, fighting poverty, and making

progress towards the achievement of the International Development Goals. It stresses the need to maintain and deepen this collaboration and extend it into other areas. The Committee also welcomes the steps under way to align more closely the Fund's technical assistance with its key policy priorities, and to better coordinate this assistance with that of the Bank and other providers.

10. The Committee strongly supports the redoubling of the Fund's efforts to put crisis prevention at the heart of its activities, and especially of its bilateral and multilateral surveillance (as described below). The Committee encourages countries to pursue strong policies and, to minimize contagion, reemphasizes the precautionary nature of the CCL for those purposes. At the same time, it welcomes the steps being taken—including the recent reforms of the Fund's financing facilities—to strengthen the Fund's capacity to respond to financial crises in member countries and to minimize their adverse impact.

11. The Committee notes the recent experience in applying the agreed framework for private sector involvement in crisis prevention and management, which relies as much as possible on voluntary, market-oriented approaches. The Committee welcomes the Executive Board discussion and the consultations with other international institutions, member governments, and the private sector on the possible use of collective action clauses, investor relations programs, corporate workouts, and techniques for bond restructuring. Looking forward, the Committee reaffirms the exceptional character of financing beyond normal access limits, and repeats that reliance on the catalytic approach at high levels of access must presume substantial justification. Within the framework of private sector involvement, there may be cases requiring more concerted approaches, and the Committee asks the Fund to continue its work on articulating the circumstances in which such approaches would be applied and the specific role of the IMF. The implementation of this framework should be subject to a well-defined monitoring and assessment procedure. The Committee also looks forward to progress by the Annual Meetings on practical issues involved in applying the framework, including: an improved basis for assessing debt sustainability; prospects for regaining market access; the risk of contagion; and the comparability of treatment between official and private creditors. The Committee stresses the importance in the future of taking decisions in a way that is consistent with the framework.

B. Strengthening the IMF's Focus on Financial Markets and Crisis Prevention

12. The Committee stresses that strong and effective crisis prevention is a top priority. It welcomes the Managing Director's decision to establish an International Capital Markets Department, as part of the effort to deepen the Fund's understanding of and judgment on international capital market issues; to improve its early warning capabilities; and to strengthen crisis prevention. This will complement the earlier establishment of the Capital Markets Consultative Group as a channel for regular, informal, and constructive dialogue with private sector representatives. The Committee calls on the Fund to make progress with its work on early warning indicators of potential crises in individual countries and in international financial markets, taking full account of the need to avoid instability. The Fund

should stand ready to help countries that wish to proceed with an orderly liberalization of their capital accounts.

13. The Committee is pleased to observe continued progress since its last meeting in implementing previous Fund initiatives on crisis prevention and financial sector surveillance. In particular, it notes:

- the agreement by the Executive Board on a list of international standards and codes relevant for the Article IV surveillance process and on the modalities by which staff assessments of members' implementation of these standards and codes will be brought into surveillance and made public, while paying due regard to the voluntary nature of these standards and codes. It agrees that ROSCs should be established as the principal tool for assessing the implementation of standards and codes. It also takes note of the revised version of the *Code of Good Practices on Fiscal Transparency* and the accompanying *Manual on Fiscal Transparency*;
- the recent steps to adapt the Fund's analytical framework to better assess external vulnerability, as well as its development of guidelines for reserves management and, with the World Bank, of guidelines for public debt management;
- the Fund's work with countries to strengthen data underpinning external vulnerability analyses, in particular the wider use of the Fund's Special Data Dissemination Standard (SDDS) and General Data Dissemination System (GDDS), and the expanded coverage of the Coordinated Portfolio Investment Survey to include more instruments and additional jurisdictions, including offshore financial centers;
- the implementation of initiatives on the Fund's transparency policy that has progressed significantly over the last year, including the decision to allow voluntary publication of all country staff reports and other country documents;
- the progress in strengthening financial sector surveillance both at the national and international levels. The Committee particularly welcomes the progress made in assessing member countries' financial sectors through the joint Bank-Fund Financial Sector Assessment Program (FSAP), which provides a coherent and comprehensive framework for identifying financial system vulnerabilities, assessing development needs and priorities, and helping to develop appropriate policy responses. The Committee agrees that the Fund's Financial System Stability Assessments (FSSAs), which are derived from the discussion of FSAP findings in the context of the Article IV process, are the preferred instrument for strengthened monitoring of financial systems as part of Fund surveillance. It welcomes the agreement by the Executive Board to permit publication by national authorities of the detailed assessment of observance of standards and codes that are included in FSAP reports and to enable publication of FSSAs on a voluntary basis. The Committee welcomes the extension

of the Fund's financial sector work to include voluntary assessments of offshore financial centers.

C. Combating Financial Abuse/Money Laundering

14. The Committee underscores that money laundering is an issue of global concern requiring strengthened policies and concerted action on the part of governments and a range of institutions. Effective anti-money laundering measures at the national level are important for all Fund members, especially those with large financial markets. In this regard, the Committee generally agrees with the recognition of the FATF 40 Recommendations as the appropriate international standard for combating money laundering, and that work should go forward to determine how the Recommendations can be adapted and made operational in the Fund's work. It endorses the proposed closer collaboration by the Fund and the World Bank with the FATF and other anti-money laundering groups in reviewing standards and procedures in this area. In this regard, the Committee notes that, to be consistent with the ROSC process, assessments should be undertaken on a uniform, cooperative, and voluntary basis. Action by the Fund on combating money laundering should aim to promote a more effective regulatory and supervisory environment and thus help prevent financial crime and money laundering. The Fund, in collaboration with the World Bank, should, if requested, also provide more technical assistance in this area to member countries to strengthen their economic, financial, and legal systems.

D. Streamlining Conditionality and Strengthening Ownership

15. The Committee welcomes the ongoing review of Fund conditionality and underscores that conditionality remains indispensable, together with financing, as an integrated response by the Fund to support its members' policy programs. While the expansion of conditionality in the structural area over the past several years reflects in part the critical importance of structural reforms for macroeconomic stability and sustained growth, its increasing scope and detailed nature warrant a review of recent practice. The Committee endorses the principles that Fund conditionality should focus on those measures, including structural, that are critical to a program's macroeconomic objectives. While this principle needs to be interpreted carefully on a case-by-case basis, the Committee notes that it shifts the presumption of coverage from one of comprehensiveness to one of parsimony. Enhanced collaboration and clearer division of labor between the Fund and other international agencies, in particular the World Bank, is an important element of streamlining. The Committee reaffirms that the overarching objective of streamlining is to make conditionality more efficient, effective, and focused, without weakening it, and welcomes the progress being made in this respect. The Committee considers it particularly important that Fund-supported programs take adequate account of national decision-making processes and the administrative capacity to implement reforms, and be founded on strong country ownership. The objective should be to provide maximum scope for countries to make their own policy choices, while ensuring that the Fund's financing supports needed policy adjustments, and while safeguarding the Fund's resources. The Committee notes that greater efforts to help countries strengthen institutional capacity for sustained implementation of structural reforms are an essential complement to

this approach. The Committee urges the Executive Board to continue its review of Fund conditionality, in the light of experience and feedback from the broad public consultation now under way on these issues, and including the important question of how to deal with structural issues which are relevant but not critical to the success of macroeconomic objectives. It looks forward to a report on further progress at its next meeting, with a view to drawing firm conclusions on the streamlining of conditionality.

E. Governance

16. The Committee agrees that the Fund should address governance issues that have a significant macroeconomic impact, both through initiatives that apply across the membership and through specific measures to address particular instances of poor governance and corruption. The Committee requests the Executive Board to keep under close review the use of specific remedial measures, which should be applied with careful judgment and flexibility. The Board should also address the two-sided nature of corruption, by following up on the implementation of OECD-led initiatives to combat bribery of foreign public officials, and similar initiatives, in the context of surveillance.

F. Other Issues

17. Quotas should reflect developments in the international economy. The Committee looks forward to further work on this issue.

18. The Committee welcomes ongoing measures to improve transparency, governance, and accountability in the Fund. The Committee particularly welcomes the appointment by the Executive Board of Mr. Montek Singh Ahluwalia as Director of the Fund's Independent Evaluation Office (EVO). Noting that the EVO will become operational in August 2001, the Committee reiterates its expectation that the work of the EVO will help the Fund to improve its future operations and enhance its accountability. It looks forward to receiving regular reports on the EVO's work and hopes that a first report, on the forward work plan, will be available in time for the Committee's next meeting.

19. The Committee notes the joint draft report of the Fund's Working Group to Review the Process of Selection of the Managing Director and the World Bank Working Group to Review the Process of Selection of the President.

20. The Committee takes this opportunity to thank Michael Mussa for his outstanding contribution to the institution. It notes that under his intellectual stewardship, the *World Economic Outlook* has become a flagship product of the Fund.

Next Meeting of the Committee

21. The next meeting of the IMFC will be held in Washington, D.C. on September 30, 2001.

ANNEX

**INTERNATIONAL MONETARY AND FINANCIAL COMMITTEE
ATTENDANCE**

April 29, 2001

Chairman

Gordon Brown

Managing Director

Horst Köhler

I. MEMBERS OR ALTERNATES

Ibrahim A. Al-Assaf, Minister of Finance and National Economy, Saudi Arabia
Sir Edward George, Governor, Bank of England
(Alternate for Gordon Brown, Chancellor of the Exchequer, United Kingdom)
Domingo Cavallo, Minister of Economy, Argentina
Peter Costello, Treasurer, Australia
Li Ruogu, Assistant Governor and Director-General, People's Bank of China
(Alternate for Dai Xianglong, Governor, People's Bank of China)
Emile Doumba, Minister of Finance, Economy, Budget and Privatization, Gabon
Hans Eichel, Federal Minister of Finance, Germany
Laurent Fabius, Minister of Economy, Finance and Industry, France
Francisco Gil Diaz, Secretary of Finance and Public Credit, Mexico
Abdelouahab Keramane, Governor, Banque d'Algérie
Sultan Nasser Al-Suwaidi, Governor, Central Bank of the United Arab Emirates
(Alternate for Mohammed K. Khirbash, Minister of State for Finance and
Industry, United Arab Emirates)
Aleksei Kudrin, Deputy Chairman of the Government and
Minister of Finance, Russian Federation
Pedro Sampaio Malan, Minister of Finance, Brazil
Paul Martin, Minister of Finance, Canada
Mrs. Linah K. Mohohlo, Governor, Bank of Botswana
Sauli Niinistö, Minister of Finance, Finland
Paul H. O'Neill, Secretary of the Treasury, United States
Didier Reynders, Minister of Finance, Belgium
Masaru Hayami, Governor, Bank of Japan
(Alternate for Masajuro Shiokawa, Minister of Finance, Japan)
Yashwant Sinha, Minister of Finance, India
Chatu Mongkol Sonakul, Governor, Bank of Thailand
Kaspar Villiger, Minister of Finance, Switzerland

Vincenzo Visco, Minister of the Treasury, Budget and Economic Planning, Italy
A.H.E.M. Wellink, President, De Nederlandsche Bank N.V., Netherlands
(Alternate for Gerrit Zalm, Minister of Finance, Netherlands)

Observers

Yilmaz Akyuz, Chief, Macro-Economics and Development Policies Branch, United Nations Conference on Trade and Development (UNCTAD)
Andrew D. Crockett, Chairman, Financial Stability Forum (FSF)
Willem F. Duisenberg, President, European Central Bank (ECB)
Richard Eglin, Director, Trade and Finance Division, World Trade Organization (WTO)
André Icard, Deputy General Manager, Bank for International Settlements (BIS)
Donald J. Johnston, Secretary-General, Organisation for Economic Cooperation and Development (OECD)
Ian Kinniburgh, Director, Development Policy Analysis Division, Department of Economic and Social Affairs, United Nations (UN)
Eddy Lee, Director, International Policy Group, International Labour Organisation (ILO)
Yashwant Sinha, Chairman, Joint Development Committee
Pedro Solbes Mira, Commissioner in charge of Economic and Monetary Affairs, European Commission
James D. Wolfensohn, President, World Bank