

NEWS BRIEF

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This corrects the October 2001 WEO projections for Selected Asian Emerging Market Economies in the table. None of the numbers showing the latest projections has been changed.

**IMF Managing Director Horst Köhler's Statement
on the Global Economic Situation**

IMF Managing Director Horst Köhler made the following statement on the global economic situation at a press conference in Washington, D.C. on November 15, 2001:

Good morning, and thank you for coming. I would like to begin by saying that we are grateful to the government of Canada and the city of Ottawa for hosting the IMFC meeting, which had to be delayed following the tragic events of September 11. In my view, the most important message coming from Ottawa will be that the international community is coming together—the representatives of 183 member countries—to demonstrate common ground in dealing with the critical problems facing the world economy.

The IMFC Agenda

This will be a very focused meeting, concentrating on two topics. The first is the **global economic situation in the aftermath of the terrorist attacks**, and the response that is needed to restore growth and sustain the fight against poverty. The second topic will be the role of the IMF in combating **money laundering** and the **financing of terrorism**.

The Global Economic Situation and Policy Response

How do we see the situation in the global economy?

- First, **the situation is clearly difficult. But it is manageable, and we continue to expect a recovery next year.**
- Second, **the IMF has been working hard** to get a handle on the needs of its members, and **stands ready to help** them to cope with the current situation.
- Third, the actions of the IMF need to be **part of a coordinated response by the entire international community.**

I have outlined the elements of that response in my October 5 statement on the global economy, which you will have seen.

We have to recognize that we face an **extraordinary degree of uncertainty** in the aftermath of the September 11 attacks. There is no real precedent for this situation, which makes forecasting based on previous experience look something like trying to read the tea leaves. The IMF staff, based on its analysis and extensive information from the various regions, has made an initial assessment. The outcome is that we have again had to revise our forecasts downward.

- As shown in the table we are handing out today, we have cut our global growth forecast for **2001** slightly (to 2.4 percent). Our forecast for **2002** is now also 2.4 percent, which means that it has been reduced by a full percentage point.
- But the staff's **best estimate is still that there will be a recovery**, beginning around the middle of next year.

We can't exclude the possibility of a worse scenario. But we give this a much lower probability because there are a number of positive underlying factors, including the policy response that has already taken place and the effects of reforms that were introduced in the wake of the Asian crisis.

- Another positive factor is that **the decline in oil prices** is helping to promote recovery and reduce financing requirements in oil-importing countries.

- In addition, while there has been a correction in the high-technology sector, there is still major potential for further **productivity gains** from the use of **new technology**.
- So we have reason not to be overly pessimistic. **What is needed now is to build confidence**, through sober analysis and sound policies, while making sure that we are prepared to deal with a worse outcome if that proves necessary.

The **advanced economies have a particular responsibility** to ensure that their policies support an early return to sustainable growth in the world economy.

- The **aggressive easing of monetary policy** in the US was right, and I welcome the recent moves by the *European Central Bank*. This will have a significant impact. The virtual absence of inflationary pressures also leaves room for further easing, if necessary.
- Beyond this, the **US** now needs to **clarify its fiscal stimulus package**.
- The **EU** should let **automatic stabilizers** work fully, to avoid unwarranted fiscal contraction. **Japan, too, should avoid fiscal contraction** in the present circumstances. And Japan should also **inject liquidity more forcefully**, to counter deflation.
- I trust that confidence will get a particular boost when people see that the **structural obstacles to stronger growth are being tackled energetically**. I would point in particular to the need for European countries to accelerate reforms of labor and product markets, and for Japan to take action on banking and corporate sector restructuring.

Many **emerging markets and developing countries** are under severe stress, but on the whole they are in a better position today to cope, as a result of reforms adopted in recent years. These include greater transparency, the implementation of standards and codes, fiscal consolidation, stronger foreign exchange reserve positions, and greater exchange rate flexibility. The reforms have also **made the international financial system as a whole more resilient**. It will be important for **emerging markets and developing countries to stay the course** of sound policies and structural reform, since markets will have little tolerance for weak fundamentals.

The IMF Stands Ready to Help Its Members

As I made clear in my October 5 statement, the **IMF stands ready to help its member countries deal with the current situation—through our policy advice, technical assistance, and additional financing.** In an extraordinary surveillance exercise, we have worked hard to get a good overview of the situation, and we can see from our detailed country-by-country analysis that there is a very differentiated picture. This means that we should be careful to avoid basing policies on blanket judgments.

- Most countries are benefiting from lower oil prices, but some would be vulnerable to any further significant decline.
- Many countries are already suffering from declines in the prices of other commodities, export volumes, and tourism receipts; some can cope without external assistance, but others will need our help.
- While the estimates are subject to great uncertainty, our overall calculation is that **the Fund has flexible instruments and adequate liquidity to meet the prospective needs for additional financing.** We will of course have to keep this situation under review.
- I believe that **the IMF needs to have a flexible and proactive approach** to help members cope with the current world economic situation. And **I hope that the IMFC will endorse this approach.**

The international community should not let the downturn in the global economy derail the efforts of low-income countries to reduce poverty. What is needed now is comprehensive support for sound, growth-oriented policies in low-income countries by the IFI's, Paris Club creditors, export credit agencies, and the donor community. Regarding the IFI's, I have been staying in regular contact with the heads of the World Bank and the regional development banks since September 11, to ensure that our actions are mutually reinforcing.

- We have analyzed the situation in 60 low-income countries, together with the World Bank, and expect to field missions in about 40 of them before the end of this year.
- The situation varies considerably from country to country, but where there is an adverse impact, it is imperative to respond swiftly in support of good policies.

- Our **best estimate** at this point is that the **need for additional lending** next year from our concessional lending window, the **Poverty Reduction and Growth Facility**, will be on the order of **\$1½-2 billion**. I am really grateful for Japan's announcement this week that it will provide US\$1 billion in loan resources for the PRGF. Japan's contribution, along with similarly generous contributions by 8 other countries,¹ assures that the Fund will have the minimum amount necessary for the continuation of the PRGF. But we need to be ambitious in supporting our poorest members, and I would strongly encourage other nations to follow this example.
- The IMF and World Bank have also made it clear that we stand ready to **reassess debt relief for countries reaching their completion points under the HIPC Initiative**, in cases where prospects for debt sustainability have been compromised by exogenous developments in the world economy.

We can all be happy about the decision at the **WTO meeting in Doha** to start a new round of trade negotiations, which will provide a further boost to confidence and prospects for economic recovery. But I also want to be clear: it will be crucial to ensure that the words of the Doha Development Declaration are translated into concrete action to open up markets in areas of greatest importance to developing countries, such as agriculture and textiles, and to eliminate trade-distorting subsidies in the advanced countries.

Fighting Money Laundering and the Financing of Terrorism

Making globalization work for the benefit of all requires that we are also active in safeguarding the stability and integrity of the international financial system. And recent events have shown the need for stronger international cooperation to combat terrorism. For these reasons, the fight against **money laundering** and the **financing of terrorism** will rightly be the second topic on the IMFC's agenda.

- This week there was a broad consensus in the IMF's Executive Board that the Fund must step up further its activities in these areas. Drawing on the cooperation of our global membership, we

¹ In addition to Japan, the contributors of loan resources for the PRGF are Belgium, China, Egypt, France, Germany, Italy, Netherlands, and Switzerland.

will work all of our members to put in place the appropriate legal and regulatory frameworks. The main vehicles for this are the IMF's financial sector assessments and its technical assistance.

- We also intend to step up our cooperation with the Financial Action Task Force, as well as other international bodies dealing with these matters. I expect to receive the IMFC's endorsement of these initiatives.

Globalization and the FfD Conference

Finally, the global slowdown and the events of September 11 make it clearer than ever that we live in an interconnected world.

- The IMFC and Development Committee will have a joint **dinner discussion with UN Secretary-General Kofi Annan** immediately after the IMFC meeting, on globalization and the preparations for next year's UN Financing for Development conference.
- I very much appreciate this opportunity, because it is important for Finance Ministers to be part of the Financing for Development process, and because I see this discussion as a part of our search for a policy concept to shape the process of globalization.

**Initial Assessment of the Global Growth
in the Aftermath of the September 11 Events**

(in percent)

	Latest Projections		Revisions from Oct. 2001 WEO		Oct. 2001 WEO	
	2001	2002	2001	2002	2001	2002
World Output	2.4	2.4	-0.2	-1.1	2.6	3.5
United States	1.1	0.7	-0.3	-1.5	1.3	2.2
European Union	1.7	1.4	-0.1	-0.8	1.8	2.2
Japan	-0.9	-1.3	-0.4	-1.5	-0.5	0.2
Developing countries	4.0	4.4	-0.4	-0.9	4.3	5.3
Africa	3.5	3.6	-0.3	-0.8	3.8	4.4
Middle East, Malta and Turkey	1.7	4.0	-0.6	-0.7	2.3	4.8
Western Hemisphere	1.1	1.7	-0.6	-1.9	1.7	3.6
Asia	5.6	5.6	-0.2	-0.5	5.8	6.2
Selected Asian emerging market economies ²	1.2	2.3	-0.5*	-1.9*	1.7*	4.2*

* *corrected.*

² Hong Kong SAR, Indonesia, Korea, Malaysia, Philippines, Singapore, Taiwan Province of China, and Thailand.