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**Statement by Mr. Schwartz and Mr. Calderón-Colín on
Progress Report on Crisis Resolution
(Preliminary)
Executive Board Meeting 05/80
September 16, 2005**

The main objective of this discussion is to overview the report that will be presented to the IMFC regarding progress on crisis resolution. While the report fulfills its purpose by presenting in haste the latest developments with respect to CACs, the Principles for Stable Capital Flows and Fair Debt Restructuring in Emerging Markets, as well as providing an update on progress on recent debt restructuring cases under the Evian approach, and summarizing a couple of topics the Board discussed this semester, it would be important that staff begins analyzing the topic from a broader view, seen from the optic of the Medium Term Strategy. We hope that in the discussion on the latter, crisis prevention and resolution, as well as a deep analysis of the international financial architecture, will be essential elements.

Crisis Prevention continues to be key and challenges are still present

Since by preventing crises we will avoid having to resolve them, crisis prevention continues to be one of the Funds more valuable assets and at the core of its responsibilities. Since the expiration of the CCL, the IMFC Communiqué has often called for the IMF to study the ways to design a precautionary instrument for those members that despite having implemented strong policies, could still be vulnerable to contagion in financial markets, and that could be added to the fund's toolkit. The quest would be to design an instrument that does not contain all the known flaws of the CCL but that could be a useful precautionary arrangement. An adequate response to this call has –to the date– been absent.

We understand that, at the moment, there may not be consensus to reopen the discussion since neither advocates nor opposers to the CCL seem to have new convincing arguments that would help create a consensus on the convenience or not of such an instrument, but believe that, after the Annual Meetings, staff should analyze with a fresh pair of eyes and from the optic of the Medium-Term Strategy what the challenges for emerging markets are and will be in the foreseeable future, and how the Fund can be useful addressing their concerns. The current build up of reserves by emerging markets, as well as the increased signs of cooperation by some countries of East Asia in case of a major financial disruption are strong signals that the Fund may not be up to the challenge to serve properly these countries.

Update on Crisis Resolution

The report takes note of recent developments on crisis resolution that we all know are taking place but fails short of making a deeper analysis. The relatively benign performance of the global economy, ample liquidity in financial markets and absence of new crises should not lead us to complacency and to consider crisis resolution as business as usual. As we have seen from the recent WEO and GFSR, there are important risks surrounding the global economy and markets and the Fund should be well prepared in case problems begin to emerge.

As other Directors, we welcome the more widespread use of CACs in international sovereign bond issues, as well as staff's role in promoting them. The role of CACs in the resolution of future crises would be paramount. We notice that most CACs are broadly in line with the G-10 recommendations and that the outstanding stock of emerging market sovereign bonds that include CACs is approximately 53 percent. We continue to call for a more widespread use of CACs by mature issuers in order to support making them common practice in international financial markets and encouraging their use among other debtors. In particular, we hope legislation in Germany codifying the legality of the inclusion of CACs in bonds will be adopted soon.

We also look forward to a more widespread acceptance of the Principles for Stable Capital Flows and Fair Debt Restructuring in Emerging Markets. We are convinced that, as with CACs, the voluntary nature and consistency of the principles are gradually gaining support and could eventually be common practice. The process of implementation will progress slowly and the market will have to assess their usefulness.

The study assessing the determinants and prospects for the pace of market access by countries emerging from crises –an update from the 2001 exercise– did not really surprise with its findings, much related to common sense. The study could have benefited from analyzing the role of the Fund in cases where countries attempt to reaccess markets after financial crises. Looking forward, econometric analysis quantifying the impact of Fund support in designing a program and also comparing it to the impact on markets when financial support is granted by the institution could be warranted. In addition, it would also be interesting to analyze, for example, the trade-off that may arise between gaining a rapid reaccess to markets and perhaps, not achieving debt sustainability.

The recent discussion on managing systemic banking crises in the context of sovereign debt restructuring was interesting and useful as a first step. However, we should be mindful that the issue is work in progress and that the discussion, besides being preliminary, should embed other important factors. First of all, it should be reminded that prudential regulations do not substitute for weak fundamentals in the economy. In second place, we should be cautious and acknowledge the risk caused by the Fund's acceptance of some questionable practices, simply because there seems to be no other viable alternative.