INTERNATIONAL MONETARY FUND
EXTERNAL RELATIONS DEPARTMENT

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International Monetary Fund
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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 second meeting in Prague on September 24, 2000, under the Chairmanship of Mr. Gordon Brown, Chancellor of the Exchequer of the United Kingdom. It welcomes Mr. Horst Köhler as the new Managing Director and looks forward to working with him on the continuing reform of the Fund and the strengthening of the international financial architecture.

World Economic Outlook

2. The Committee welcomes the strengthening of global economic growth this year to the highest rate in twelve years. Economies in all major regions of the world have grown, and inflation remains generally under control.

3. While the overall outlook is positive, the Committee remains mindful of the significant remaining risks associated with the continuing economic and financial imbalances in the global economy. These potential challenges include imbalances in external accounts and the possible risk from misalignments in exchange rates and high levels of equity valuations in the major currency areas. The Committee considers that it will therefore be important to remain vigilant against inflationary pressures in the United States, and that national savings should increase; to pursue policies in Japan that are strongly supportive of self-sustained domestic demand-led recovery; and to intensify the momentum of growth-supporting structural reforms in the European Union and in other advanced countries. In almost all developing and emerging market countries, continued progress with structural reforms—in particular through strengthening their financial sectors—is required to strengthen prospects for sustained economic growth. The Committee also expresses concern that, despite the strength of the global recovery, poverty remains unacceptably high, and many poor countries continue to face serious economic problems.

4. The Committee welcomes the gradual improvement in the last year in the terms and conditions of market access for emerging market countries, reflecting the better fundamentals in these markets. However, flows remain below pre-crisis levels, at higher spreads, and continue to show significant volatility, and market access remains extremely limited for some emerging markets.

5. The Committee is concerned that current oil prices, if sustained, could hamper global growth, add to inflationary pressures, and adversely affect prospects for many countries. It notes in particular the effect on the poorest countries and those highly dependent on oil

imports. The Committee agrees on the desirability of stability in oil markets around reasonable long-term prices. It notes the recent U.S. decision to mobilize reserves and notes that some other industrial countries may be in a position to examine the possibility of doing * so to help achieve greater stability. The Committee welcomes the steps the oil-producing countries have taken this year to increase production and calls on them to take further steps to create conditions in oil markets conducive to healthy global growth. The Committee looks forward to improved dialogue between oil producers and consumers to promote greater oil market stability.

6. The Committee notes that, in the ten years since the launch of the transition to market economies in eastern Europe and the former Soviet Union, much has been achieved. But the process has been difficult and remains far from complete, and progress has varied across countries. The Committee underlines that a key lesson from this experience is that transition economies that have made the greatest progress in establishing macroeconomic stability and implementing structural and institutional reforms have also achieved the best economic performance.

The Future Role of the IMF

7. The Committee strongly supports the objective of making globalization work for the benefit of all. In this respect, it endorses the Managing Director's vision of the future role of the IMF, and looks forward to working with him on continuing reform of the Fund and strengthening the international architecture. While each country's own actions will inevitably be the most important determinant of its economic progress, all members of the international community have essential roles in supporting and facilitating these individual efforts. The international community must place renewed emphasis on promoting broadly-shared prosperity, sustained growth, and poverty reduction. With its broad mandate and universal membership, the Fund, in partnership with the World Bank, is uniquely placed to serve its members, including the poorest countries, by contributing to this global effort.

8. The Committee notes the advances in applying the lessons of recent financial crises to the work of the IMF and the policies of its members. Many concrete steps have been taken or are under way to improve the functioning of the international financial system, and to strengthen its capacity for preventing and managing financial crises. As a result, the international community has made progress toward dealing with difficult situations and managing their external repercussions.

9. But continued efforts for change will be necessary. The Committee calls upon the IMF, in particular, and the international community, as a whole, to continue to strengthen their efforts to reduce vulnerability and to avoid crises, and when crises do occur, to reduce their spillover effects. These efforts will need to focus on:

- broadening and strengthening the Fund's surveillance of the domestic economic policies of all members and of the international financial system, including regional dimensions;

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* Revised text.

- continued promotion, development, and voluntary implementation, in a fully participatory way, of internationally agreed codes and standards, in cooperation with other bodies, as appropriate, supported by enhanced technical assistance; and

- constructive engagement of the private sector by the official sector.

10. The Committee reiterates that the Fund has a central role to play in bringing together the efforts of other global institutions to strengthen the international financial system in helping to ensure that all countries can benefit from globalization. It agrees that the Fund can best contribute to this global effort and strengthen its overall effectiveness by:

- continuing to deepen its collaboration with other agencies and bodies. In that regard, it welcomes the initiatives of the Managing Director and the President of the World Bank to strengthen cooperation and complementarity between the two institutions;

- promoting, within the context of the Fund's mandate, international financial and macroeconomic stability and growth of member countries, the Fund must sharpen the focus of work in its core areas of responsibility: macroeconomic stabilization and adjustment; monetary, exchange rate, and fiscal policies and their associated institutional and structural aspects; and financial sector issues, especially systemic issues relating to the functioning of domestic and international financial markets.

11. The Committee stresses the importance of national ownership of Fund-supported programs for their sustained implementation. The Committee urges the Executive Board to take forward its review of all aspects of the policy conditionality associated with Fund financing in order to ensure that, while not weakening that conditionality, it focuses on the most essential issues; enhances the effectiveness of Fund-supported programs; and pays due respect to members' specific circumstances and their implementation capacities.

The Poverty Reduction and Growth Facility (PRGF) and the enhanced Initiative for Heavily Indebted Poor Countries (HIPC)

12. The Committee affirms the Fund's enhanced role in poor countries. It considers that a lasting breakthrough in combating world poverty can only be achieved if the poorest countries are able, with the support of the international community, to build the fundamentals for sustained growth. Macroeconomic stability and structural reform will provide the conditions for private sector investment and growth and will, over time, allow countries to access international capital markets. The Committee also considers that international trade is critical for development and poverty reduction. To help ensure that the fruits of globalization are shared by all, it will be crucial that access of developing countries, particularly the poorest, to industrial country markets continues to improve. Industrial countries should increase their official development assistance. The Committee encourages developing countries, for their part, to follow policies consistent with domestic macroeconomic stability and competitiveness in international markets; continue to reduce trade barriers; and implement other appropriately sequenced outward-oriented reforms that promote poverty

reducing growth, investment in human capital, particularly health and education, and development.

13. The PRGF provides an essential framework, together with complementary assistance from the World Bank, for supporting countries' own growth strategies and for enabling HIPC debt relief to be translated into poverty reduction.

14. The Committee endorses the Progress Reports on the HIPC Initiative and Poverty Reduction Strategy Papers (PRSPs). It welcomes the progress made in developing country-owned poverty reduction strategies, including through the preparation of PRSPs, which now underpin the work of the Fund and World Bank in low-income countries. It also welcomes the progress in implementing the enhanced HIPC Initiative, and the commitment of the Fund and the Bank to do everything possible to bring 20 countries to their Decision Point by the end of 2000 to ensure that debt relief is provided in the context of a strong commitment to growth and poverty reduction. Recent shocks in terms of trade must not jeopardize this objective. The Fund, through its facilities, may need to respond flexibly to the needs of members that arise from a sustained period of high oil prices. Our efforts should be supported by increased technical assistance. The Committee urges members to work together and meet their commitments to full financing of the HIPC Initiative and the PRGF as soon as possible. It also urges all creditors to participate in the HIPC framework, while recognizing the special needs of particular creditors. The Committee looks forward to a productive discussion of the enhanced HIPC Initiative and the PRSP process at its joint meeting with the Development Committee.

Strengthening the International Financial Architecture and Reform of the Fund

Review of Fund Facilities

15. Following the Executive Board's wide-ranging review of the IMF's nonconcessional financial facilities, the Committee welcomes the agreement reached on modifications that are intended to enhance the precautionary nature of the Contingent Credit Line (CCL) and to preserve the revolving nature of the Fund's resources.

- The CCL has been modified, within its existing eligibility criteria, to make it a more effective instrument for preventing crises and resisting contagion for countries pursuing sound policies.

- The terms of stand-by arrangements and the Extended Fund Facility (EFF) have been adapted to encourage countries to avoid reliance on Fund resources for unduly long periods or in unduly large amounts.

- It has been reaffirmed that the EFF should be confined to cases where longer-term financing is clearly required.

- It has been agreed that enhanced post-program monitoring could be useful, especially when credit outstanding exceeds a certain threshold level.

Enhancing Fund Surveillance, and Promoting Stability and Transparency in the Financial Sector

16. The Committee considers that Fund surveillance should be strengthened further and welcomes the recent initiatives in a range of areas. It reaffirms the role of the Article IV process as the appropriate framework within which to organize and discuss with members the results of work in these areas. Strengthened surveillance will help the Fund and its members to identify vulnerabilities and to anticipate threats to the financial stability of member countries. In this respect, it welcomes the continuing efforts to improve the Fund's understanding of its members' economies; the quality and availability of economic and financial data; Financial System Stability Assessments (FSSAs) derived from the joint Fund-World Bank Financial Sector Assessment Program (FSAP); Reports on Observance of Standards and Codes (ROSCs); and vulnerability indicators and early warning systems. It welcomes the joint Bank-Fund work on debt management guidelines, as well as the Fund's work on sound reserves management practices, and its role in assessing offshore financial centers.

17. The Committee recognizes that the Fund has to play its role as part of the international efforts to protect the integrity of the international financial system against abuse, including through its efforts to promote sound financial sectors and good governance. It asks that the Fund explore incorporating work on financial abuse, particularly with respect to international efforts to fight against money laundering, into its various activities, as relevant and appropriate. It calls on the Fund to prepare a joint paper with the World Bank on their respective roles in combating money laundering and financial crime, and in protecting the international financial system, for discussion by their Boards before the Spring meetings and asks them to report to the Spring IMFC/Development Committee meetings on the status of their efforts.

18. The Committee is encouraged by the experience so far in preparing ROSCs and looks forward to the review later this year of the experience with assessing the implementation of standards. It notes their crucial role in helping countries to improve economic policies, identifying priorities for institutional and structural reform, and in promoting the flow of important information to markets. The Committee looks forward to the next review of the FSAP. It encourages members to participate in these initiatives.

19. The Committee notes that three issues at the core of the Fund's mandate also require further consideration: exchange rate arrangements; the sequencing of financial sector development and capital account liberalization; and the monitoring and analysis of developments in international capital markets. The Committee encourages the Fund to deepen its work on international financial markets, including by improving its understanding of market dynamics and cross-border capital flows. It also urges the Fund to continue exploring ways of engaging more constructively the private sector on these matters, and welcomes the formation of the Capital Markets Consultative Group.

20. In the context of ongoing efforts to enhance the transparency and openness of the Fund, the Committee welcomes the Executive Board's agreement to adopt a general policy of

voluntary publication of Article IV and use of Fund resources staff reports and other country papers. It encourages members to move in principle toward publication of these documents.

Private Sector Involvement

21. The Committee endorses the report by the Managing Director on the involvement of the private sector in crisis prevention and management. It welcomes the progress on developing a framework for involving private creditors in the resolution of crises. The Committee notes that this approach strikes a balance between the clarity needed to guide market expectations and the operational flexibility, anchored in clear principles, needed to allow the most effective response in each case. The Committee notes that Fund resources are limited and that extraordinary access should be exceptional; further, neither creditors nor debtors should expect to be protected from adverse outcomes by official action.

22. The Committee agrees that the operational framework for private sector involvement must rely as much as possible on market-oriented solutions and voluntary approaches. The approach adopted by the international community should be based on the IMF's assessment of a country's underlying payment capacity and prospects of regaining market access. In some cases, the combination of catalytic official financing and policy adjustment should allow the country to regain full market access quickly. The Committee agrees that reliance on the catalytic approach at high levels of access presumes substantial justification, both in terms of its likely effectiveness and of the risks of alternative approaches. In other cases, emphasis should be placed on encouraging voluntary approaches, as needed, to overcome creditor coordination problems. In yet other cases, the early restoration of full market access on terms consistent with medium-term external sustainability may be judged to be unrealistic, and a broader spectrum of actions by private creditors, including comprehensive debt restructuring, may be warranted to provide for an adequately financed program and a viable medium-term payments profile. This includes the possibility that, in certain extreme cases, a temporary payments suspension or standstill may be unavoidable. The Fund should continue to be prepared to provide financial support to a member's adjustment program despite arrears to private creditors, provided the country is seeking to work cooperatively and in good faith with its private creditors and is meeting other program requirements. The Committee urges progress in the application of the framework agreed in April 2000, and in further work to refine the analytical basis for the required judgments, and it looks forward to a progress report by its next meeting.

Good Governance and the Fund

23. The Committee views with concern a number of recent cases of misreporting to the Fund and stresses the importance of the steps being taken to improve the reliability of the information the Fund uses. It welcomes the application of the new safeguards assessment procedure to all new Fund arrangements, which will provide assurances of adequate control, reporting, and auditing procedures in borrowing countries.

24. The Committee strongly welcomes the Executive Board's decision to establish an independent evaluation office (EVO), including the agreement to publish promptly its work program, and the strong presumption that its reports would be published promptly. The

creation of this office will help the Fund to improve its future operations, and will enhance its accountability. It urges that the EVO become operational before the Spring 2001 meeting of the IMFC, and looks forward to receiving regular reports on the EVO's work.

25. Quotas should reflect developments in the international economy. The Committee takes note of the Executive Board discussion of the work of the quota formulae group, and looks forward to the Board's continued work on this issue.

26. The Committee takes note of the work of the Working Group to Review the Process of Selection of the Managing Director, which is being carried out in tandem with similar work in the World Bank on the Process of Selection of the President, and notes that the two groups will report together.

27. The Committee considers that the most valuable asset of the IMF is its outstanding staff, and the Committee highly values the staff's professionalism and dedication in executing the responsibilities of the Fund effectively and efficiently.

28. The Committee expresses its sincere appreciation for the excellent hospitality and support provided by the Czech authorities and the people of the Czech Republic.

Next Meeting of the Committee

29. The next meeting of the IMFC will be held in Washington, D.C. on April 29, 2001.

ANNEX

INTERNATIONAL MONETARY AND FINANCIAL COMMITTEE ATTENDANCE

September 24, 2000

Chairman

Gordon Brown

Managing Director

Horst Köhler

Members or Alternates

Hamad Al-Sayari, Governor, Saudi Arabian Monetary Agency
(Alternate for Ibrahim A. Al-Assaf, Minister of Finance and National Economy, Saudi Arabia)
Eddie George, Governor, Bank of England
(Alternate for Gordon Brown, Chancellor of the Exchequer, United Kingdom)
Rod Kemp, Assistant Treasurer, Australia
(Alternate for Peter Costello, Treasurer, Australia)
Dai Xianglong, Governor, People's Bank of China
Dato' Shafie Mohd. Salleh, Deputy Minister of Finance, Malaysia
(Alternate for Tun Daim Zainuddin, Minister of Finance, Malaysia)
Rodrigo de Rato Figaredo, Second Vice President and Minister of Economy, Spain
Makhtar Diop, Minister of Economy and Finance, Senegal
(Alternate for 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
Abdelouahab Keramane, Governor, Banque d'Algérie
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
José Luis Machinea, Minister of Economy, Argentina
Pedro Sampaio Malan, Minister of Finance, Brazil
Paul Martin, Minister of Finance, Canada
Masaru Hayami, Governor, Bank of Japan
(Alternate for Kiichi Miyazawa, Minister of Finance, Japan)
Mrs. Linah K. Mohohlo, Governor, Bank of Botswana
Sauli Niinistö, Minister of Finance, Finland

Didier Reynders, Minister of Finance, Belgium
Yashwant Sinha, Minister of Finance, India
Lawrence H. Summers, Secretary of the Treasury, United States
Kaspar Villiger, Minister of Finance, Switzerland
Vincenzo Visco, Minister of the Treasury, Budget and Economic Planning, Italy
Gerrit Zalm, Minister of Finance, Netherlands

Observers

Yilmaz Akyuz, Chief, Macro-Economics and Development Policies, UNCTAD
Andrew D. Crockett, Chairman, FSF
Willem F. Duisenberg, President, ECB
André Icard, Assistant General Manager, BIS
Donald J. Johnston, Secretary-General, OECD
Ian Kinniburgh, Director, Development Policy Analysis Division, Department of Economic and Social Affairs, UN

Eddy Lee, Director, International Policy Group, ILO

Michael Moore, Director-General, WTO
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