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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 inaugural meeting in Washington, D.C. on April 16, 2000, under the Chairmanship of Mr. Gordon Brown, Chancellor of the Exchequer of the United Kingdom.

Strengthening the IMF's Role in the Global Economy

2. The Committee's deliberations have taken place today against the background of a growing public debate about the directions in which the IMF and the international financial system should evolve to adapt to a rapidly changing economic environment. The debate also reflects a concern that the benefits the world economy is deriving from freer trade and more integrated and deeper international capital markets are not reaching everyone, especially in the developing countries. The Committee reaffirms its strong support for the Fund's unique role as the cornerstone of the international monetary and financial system and its ability, by virtue of its universal character, to help all of its members. With the support of all its members, the IMF has undergone continuous change to equip itself better to assist members to build the strong macroeconomic and institutional underpinnings required for international financial stability and the broader sharing of the benefits and opportunities of an open world economy. But more needs to be done, and the Committee therefore pledges to continue to work toward making the IMF more effective, transparent, and accountable.

World Economic Outlook

3. The Committee welcomes the rapid recovery of the world economy in 1999 and the prospect of even stronger growth in 2000. Global economic and financial conditions have improved markedly during the past year, with growth picking up in most regions of the world. Moreover, the acceleration of global growth has occurred without a significant increase in underlying inflation. This improvement has, in most instances, also reflected the pursuit of sound macroeconomic policies and continuing structural reforms in many countries, both advanced and developing. In particular, the Committee notes that:

- the expansion in the United States continues at a remarkable pace. Monetary and fiscal policies will need to remain prudent, and fiscal surplus policies should not be relaxed. National saving also needs to increase further;

- growth has also strengthened in western Europe and it is important that this is sustained. Monetary policy should remain supportive of growth through its focus on maintaining low inflation. Countries should also continue to pursue prudent fiscal policies. Stronger growth provides an opportunity to press ahead with fiscal reforms necessary to ensure the long-term sustainability of public finances, and to continue with further reforms of labor, capital, and product markets to ensure that the pace of growth is sustained; and
- there are some positive signs in Japan. However, a durable economic recovery has yet to be secured and deflationary concerns still remain. It is important that macroeconomic policies continue to be supportive until recovery in private demand is firmly established; structural reforms, especially through sustained financial and corporate sector restructuring, will be crucial in boosting confidence and paving the way for a return to sustained growth.

4. While welcoming the increases in oil production that will help stabilize oil prices and support continuing non-inflationary growth in global output, the Committee notes that the current outlook is still vulnerable in several respects. In particular, substantial differences in economic performance continue to contribute to external imbalances. Against this background, the Committee stresses the importance of the policy priorities outlined above, which would help to promote a smooth transition toward a more sustainable and balanced pattern of economic growth.

5. The Committee notes that the strong performance in North America and the increase in growth in western Europe have provided a more supportive environment for growth elsewhere in the world:

- in Asia, China and India have continued to grow rapidly; and economic recovery in the crisis-affected countries has gained significant momentum. In most countries, macroeconomic policies should still be directed toward providing support for recovery. However, in the countries where recovery is most advanced, policies should turn to strengthening the conditions for sustainable growth. The Committee urges all countries to maintain the momentum behind their structural reform efforts;
- in Latin America, the downturn in 1999 was generally milder than initially foreseen, and signs of a broad-based recovery are already evident in the context of further declines in inflation. However, further fiscal consolidation remains a priority, especially in those cases where external financing requirements remain large;
- Russia's economic performance has improved, with economic growth attributable in part to higher oil prices and the 1998 devaluation, as well as macroeconomic policies. Growth in Russia will be sustained only if major strides are made to strengthen institutions, especially the rule of law, and to create an attractive environment for domestic and foreign investors, thus tackling the issue of capital flight. Economic conditions are also strengthening in other transition economies; and

- the recent recovery in oil prices and in some other commodity markets are providing support to many countries' own efforts in the Middle East and Africa. These countries have an opportunity to accelerate economic reforms and diversification. Other countries have performed less well for a variety of reasons, including inappropriate policies, unfavorable weather conditions, or continued conflict. The Committee encourages these countries to strengthen their adjustment efforts with the help of the international community.

6. The Committee reiterates the critical importance of open and competitive markets as a key component of efforts to sustain growth and stability in the global economy and to reduce poverty. Improving access to industrial country markets for products of developing countries will be crucial to support their reform efforts. The Committee welcomes the initiation of WTO negotiations in agriculture and services, and supports the early launch of a new round of multilateral trade negotiations, which would bring benefits to all countries, including the poorest. The Committee calls on the IMF to continue to work with the World Bank, the WTO, and other interested parties to improve the effectiveness of trade-related technical assistance and to build institutional capacity. It encourages the Fund to give appropriate emphasis to trade policy reforms in its policy advice to all its members, including under Fund-supported programs, and in country poverty reduction strategies.

Review of Fund Facilities

7. The Committee agrees that the Fund's financial operations should continue to adapt to the changing nature of the global economy, including the rapid growth and integration of international capital markets. Against this background, the Committee welcomes the progress that has been made in reviewing the Fund's non-concessional facilities. It endorses the Board's decision to simplify the array of IMF facilities by eliminating four facilities—the Currency Stabilization Fund, support for commercial bank Debt and Debt Service Reduction, the Buffer Stock Financing Facility, and the contingency element of the Compensatory and Contingency Financing Facility—and by streamlining the Compensatory Financing Facility.

8. The Committee has set out a number of principles that should underpin this review, including the need to preserve the Fund's ability to provide and catalyze financial support to all member countries according to individual country circumstances, and with due consideration of social implications. The Fund's facilities should encourage countries to adopt strong ex ante measures to prevent crises, including, where appropriate, observance of internationally agreed codes and standards, and the maintenance of good relations with private creditors. The Fund must retain the ability to help countries respond quickly and effectively to short-run balance of payments problems. In defined circumstances where balance of payments difficulties are expected to be of a long-term nature, the Fund will also need to be able to support reforms that deal with structural problems, while encouraging countries to move toward sustainable access to, and reliance on, private capital. The Fund must also be able to respond rapidly and on an appropriate scale to crises of capital market confidence, and it should do so on terms that mitigate moral hazard and encourage rapid repayment. In this context, the IMF should take appropriate steps to involve the private sector in forestalling and resolving crises.

9. With these principles in mind, the Committee asks the Executive Board to continue its review of these issues and, in particular, to consider the policies on the maturity, pricing structure, and other aspects of existing facilities, with a view to ensuring that they provide the right incentives, in particular by enhancing the effectiveness of the CCL, without compromising the initial eligibility criteria, and by avoiding unduly prolonged use of resources provided under the SBA and EFF. The Committee asks the Executive Board to secure rapid progress and to report at the Committee's next meeting.

Safeguards and Misreporting

10. The Committee affirms that, while episodes of misreporting of information to the Fund or allegations of misuse of Fund resources have been few, such incidents are nonetheless extremely serious and undermine the trust that binds the Fund and its members, as well as public confidence in the Fund. The Committee therefore welcomes the Board's adoption of a strengthened framework of measures to safeguard the use of Fund resources, pursuant to the Interim Committee's call in September 1999, and to deter misreporting and misuse of Fund resources. The Committee stresses that the forceful application of the strengthened framework is critical to enhancing the integrity of the Fund's financial operations.

11. The Committee especially welcomes the Board's decision to adopt the new framework for the conduct of safeguards assessments. It also welcomes the requirement that all countries making use of Fund resources will publish annual central bank financial statements that are independently audited in accordance with internationally accepted standards. The Committee also welcomes the decisions to broaden the application of tools for addressing misreporting when it comes to light, including by applying the Guidelines on Misreporting to prior actions and other essential information, lengthening the two-year limitation period, and making public the relevant information in cases of misreporting, in line with the Board's decision. It agrees that the effectiveness of this policy be reviewed after 12 to 18 months.

Private Sector Involvement

12. The Committee underscores the importance of prevention as the first line of defense against crises. Countries participating in international capital markets and their private creditors should seek, in normal times, to establish a strong, continuous dialogue. Collective action clauses could have an important role to play in facilitating orderly crisis resolution.

13. The IMF has an important role to play with regard to crisis resolution. The Committee agrees that the approach adopted by the international community should provide for flexibility to address diverse cases within a framework of principles and tools, and be based on the IMF's assessment of a country's underlying payment capacity and prospects of regaining market access.

14. In some cases, the combination of catalytic official financing and policy adjustment should allow the country to regain full market access quickly. In some cases, emphasis should be placed on encouraging voluntary approaches, as needed, to overcome creditor coordination

problems. In 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.

15. In those cases where debt restructuring or debt reduction may be necessary, the Committee agrees that IMF-supported programs should put strong emphasis on medium-term sustainability and should strike an appropriate balance between the contributions of the private external creditors and the official external creditors, in light of financing provided by international financial institutions. The Committee notes the need to aim for fairness in the treatment of different classes of private creditors, and that private sector involvement should proceed on the basis that no class of creditors should be considered inherently privileged. The IMF should review the country's efforts to secure needed contributions from private creditors in light of these considerations, as well as medium-term sustainability. The responsibility for negotiation with creditors is placed squarely with debtor countries. The international financial community should not micromanage the details of any debt restructuring or debt reduction negotiation.

16. The Committee agrees that the IMF should consider whether private sector involvement is appropriate in programs supported by the Fund. In this regard, the Committee also agrees on the need to provide greater clarity to countries about the terms and conditions of their programs. When all relevant decisions have been taken, the Fund should set out publicly how and what policy approaches have been adopted.

Review of Surveillance; Links between Surveillance and Standards and Codes

17. The Committee welcomes the recent internal review of Fund surveillance, which built upon the June 1999 external evaluation. Progress is being made in adapting surveillance to changing global realities and to strengthening it in key areas, including financial sector issues, and external debt and capital account developments. The Committee also welcomes the sharper focus on exchange rate policies, and their consistency with underlying macroeconomic and other policies, and institutional arrangements. Issues outside the traditional core areas of surveillance should generally be considered when they are likely to have a significant impact on macroeconomic and financial stability. The Committee urges that the Fund improve further its multilateral surveillance by taking account of international implications of national policies. The Committee notes the importance of the provision of comprehensive, timely, high quality, and accurate information to the Fund in line with the SDDS and GDDS, and calls upon the Fund to help and encourage members in adopting and meeting these standards.

18. The Committee agrees that the Fund's focus on financial vulnerabilities must be strengthened further, and supports vulnerability analyses in IMF surveillance. To this end, the Committee: (i) encourages the further development and integration of indicators of country financial vulnerability in the IMF's ongoing surveillance and operational work; (ii) calls on the IMF, in collaboration with the World Bank, to complete promptly guidelines on sovereign debt

management; and (iii) asks the Board to work further on how to incorporate into surveillance and technical assistance the work under way on the policy on official reserves.

19. The Committee welcomes the work of the Fund and the Bank in preparing Reports on the Observance of Standards and Codes (ROSCs) and in implementing the pilot Financial Sector Assessment Program (FSAP) that could serve as the primary basis for enhancing the Fund's monitoring of the financial sector in the context of Article IV surveillance through Financial System Stability Assessments (FSSAs). It endorses the decision to continue the FSAP and expand the coverage to 24 countries on a voluntary basis for the coming year. The Committee looks forward to a report on the progress with these programs at its next meeting.

20. The Committee recognizes the importance of adherence to international standards and codes of good practice in improving the policy environment and in reducing countries' macroeconomic and financial vulnerability. It reaffirms that the adherence to such codes is voluntary. The Committee agrees that the Article IV surveillance process provides the appropriate framework within which to organize and discuss with national authorities the implications of assessments of adherence to standards and codes, and calls upon the Executive Board to agree on the modalities. The Committee also recognizes the possible need for technical assistance to help meet relevant standards. Fund surveillance will be the principal mechanism through which the results of many initiatives under way in the IMF and elsewhere to strengthen the international monetary system will come together, including in the areas of standards and codes, financial system assessments, data provision, and transparency. This will pose new challenges for the Fund, especially on how to draw on the work and special expertise of other institutions in its surveillance. In this regard, the Committee welcomes the work that has been done by the Fund—in collaboration with the World Bank and other relevant bodies—to encourage the adoption of standards and codes. It looks forward to the results of the pilot exercise on the preparation of ROSCs, and encourages the publication of ROSCs on a voluntary basis. The Committee encourages the Executive Board to continue its work on how to incorporate into surveillance the results of these various initiatives, and looks forward to a review of progress at its next meeting.

21. The Committee welcomes the progress made in the Fund and other fora in developing and strengthening standards and codes for data dissemination; for transparency in fiscal, monetary, and financial policies; for banking supervision; and for securities and insurance regulation. It urges the Fund to continue with this work, including through outreach activities, and with the provision of technical assistance.

22. The Committee takes note of the reports of the Financial Stability Forum (FSF) Working Groups on highly leveraged institutions, offshore financial centers, and capital flows, and the report on standards and codes. It welcomes the work done by the FSF, and requests the Executive Board to undertake an assessment of the recommendations relevant to the Fund.

Transparency and Accountability

23. The Committee reiterates the importance it attaches to greater transparency in policy making in improving the functioning of national economies as well as the international financial system. It also underscores the importance of enhanced transparency and accountability of the international financial institutions themselves. In this regard, the Committee welcomes continuing progress in a number of areas:

- the widespread release—currently in 80 percent of cases—of Public Information Notices following Article IV consultations and of letters of intent and other program documents underpinning Fund financial programs; and the issuance of Chairman’s statements following Executive Board discussions of use of Fund resources;
- the voluntary participation of 60 countries (compared with the initial target of 20) in the pilot project for the release of Article IV staff reports;
- the expanded publication of information on the Fund’s liquidity position, members’ accounts with the Fund, and the Fund’s quarterly financial transactions plan;
- the systematic publication of policy documents in a wide range of areas to encourage public comment and discussion;
- the publication, under the pilot study for the preparation of ROSCs, of modules for 11 countries, and the modules for an additional 20 countries now under preparation; and
- the publication of the Executive Board’s Work Program.

24. The Committee encourages further actions to make the policies of the Fund, and members’ policies, more transparent without compromising the Fund’s role as confidential advisor.

25. The Committee welcomes the decision by the Fund to establish an independent evaluation office, which will complement the Fund’s ongoing internal audit and self-evaluation activities. It urges the Executive Board to agree on the terms of reference, structure, staffing, and operating procedures, and to report back to the Committee at its next meeting. The Committee looks forward to regular reports on the activities of the office to future IMFC meetings.

The HIPC Initiative and Poverty Reduction and Growth Strategies

26. The Committee notes the recent progress in implementing the enhanced HIPC Initiative, which is aimed at providing faster, deeper, and broader debt relief and strengthening the link between debt relief and poverty reduction. It urges all those with a stake in the HIPC Initiative to work for faster and effective implementation, and to give the HIPC process the highest priority so that as many countries as possible can reach the decision point by the end of the year. The

Committee welcomes the establishment of a Bank/Fund Joint Implementation Committee to facilitate implementation of the HIPC Initiative and the poverty reduction strategy process. In this connection, it welcomes the decision to provide regular reports on progress in country cases to the two Executive Boards.

27. The Committee welcomes the progress made in developing country-owned poverty reduction strategies as the framework for Fund and World Bank concessional lending and for linking debt relief under the enhanced HIPC Initiative to concrete poverty reduction programs and growth strategies, so as to ensure that the resources freed are directed to key poverty reduction measures. The Committee urges all countries involved to move ahead as quickly as possible with the preparation of Poverty Reduction Strategy Papers (PRSPs) in a participatory manner, integrating priority measures for poverty reduction and structural reforms within a growth-oriented macroeconomic framework.

28. The Committee reiterates that macroeconomic stability, transparent management of public resources, and good governance are essential for achieving sustainable growth and poverty reduction. The Fund has a critical role to play in helping countries adopt and implement appropriate macroeconomic policies. The Committee welcomes the clear delineation of the cooperative but distinct roles of the Fund and Bank, and notes that the Fund will rely on the Bank to lead in helping countries to develop policies to combat poverty and improve social conditions.

29. The Committee reaffirms the importance of the principle of full participation in the HIPC Initiative by all creditors. In this respect, it calls on all bilateral creditors to play their part, while recognizing the need for flexibility in exceptional cases. It stresses that debt relief can be effective only if it complements and reinforces sound policies implemented by HIPC countries and leads to an increase in resource flows. It welcomes the decisions adopted by the Executive Board, and the actions taken by many members, to ensure the financing for the Fund's participation in the HIPC Initiative and for the Poverty Reduction and Growth Facility (PRGF). It encourages all members and multilateral institutions to complete this process as soon as possible.

Tribute to Michel Camdessus

30. The members of the Committee unanimously pay tribute to Mr. Michel Camdessus for the vision, skill, and energy with which he led the International Monetary Fund as Managing Director through 13 years of unprecedented challenges. Over this period, international monetary and financial cooperation was tested by the growing openness of the world economy; the rapid spread of market economy principles throughout much of the world; financial crises of unexpected virulence and scope; and the growing danger of marginalization of the poorest economies. Under his leadership, the IMF moved on many fronts—strengthening surveillance; launching greater openness and transparency; and introducing innovative financial facilities to help resolve the debt crisis of the 1980s and the financial crises of the 1990s, and, through the establishment of the Enhanced Structural Adjustment Facility (now the Poverty Reduction and Growth Facility), to support and sustain the integration of the Fund's low-income members into

the world economy. The members of the Committee wish to record their deep appreciation of Mr. Camdessus' many contributions, which were always marked by his personal enthusiasm and optimism, and his characteristic blend of commitment to financial discipline with devotion to alleviating the hardships of the most vulnerable.

31. The Committee warmly welcomes the appointment of Mr. Horst Köhler as the new Managing Director, and expresses its deep gratitude to Mr. Stanley Fischer for his stewardship of the Fund in the interim.

32. The next meeting of the IMFC will be held in Prague on September 24, 2000.

**INTERNATIONAL MONETARY AND FINANCIAL COMMITTEE
ATTENDANCE**

April 16, 2000

Chairman

Gordon Brown

Acting Managing Director

Stanley Fischer

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)

Giuliano Amato, Minister of the Treasury, Budget and Economic Planning, Italy

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)

Xiao Gang, Deputy Governor, People's Bank of China
(Alternate for Dai Xianglong, Governor, People's Bank of China)

Cristóbal Montoro, Secretary of State for Economy, Spain
(Alternate for Rodrigo de Rato Figaredo, Second-Vice President and Minister of
Economy and Finance, Spain)

N'Golo Coulibaly, Minister of Economy and Finance, Côte d'Ivoire
(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

Viktor Gerashchenko, Chairman, Central Bank of the Russian Federation

Abdelouahab Keramane, Governor, Banque d'Algérie

Mohammed K. Khirbash, Minister of State for Finance and Industry,
United Arab Emirates

José Luis Machinea, Minister of Economy, Argentina

Pedro Sampaio Malan, Minister of Finance, Brazil

Trevor A. Manuel, Minister of Finance, South Africa

Gordon Thiessen, Governor, Bank of Canada
(Alternate for Paul Martin, Minister of Finance, Canada)

Masaru Hayami, Governor, Bank of Japan
(Alternate for Kiichi Miyazawa, Minister of Finance, Japan)
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
A.H.E.M. Wellink, President, De Nederlandsche Bank
(Alternate for Gerrit Zalm, Minister of Finance, Netherlands)
Mrs. Zeti Akhtar Aziz, Deputy Governor, Bank Negara Malaysia

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, UN
Eddy Lee, Director, International Policy Group, ILO
Michael Moore, Director-General, WTO
Pedro Solbes Mira, Commissioner in charge of Economic and Monetary Affairs,
European Commission
James D. Wolfensohn, President, World Bank