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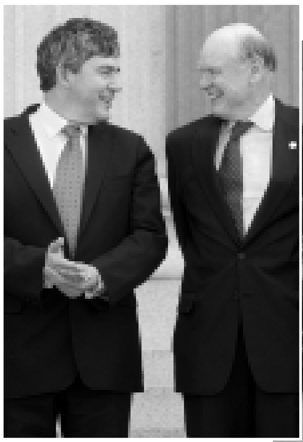
IMF–World Bank Annual Meetings

Ministers call for bold actions to sustain global economic recovery



Against a backdrop of higher oil prices, the world's top economic and financial policymakers—gathered for the IMF–World Bank Annual Meetings in Washington, D.C., October 2–3—said that they expected the global expansion to continue if all countries pursue sound economic policies and adopt vital reforms. They asked the IMF to further strengthen surveillance, crisis prevention and resolution, and the IMF's role in low-income countries—with an eye to better helping these countries meet the UN Millennium Development Goals. They also urged the IMF and the World Bank to explore ways to make aid for the poorest countries more effective and to better assist countries struggling with high debt loads.

Not on the agenda of the meetings, but much discussed on the sidelines, was financial help for Iraq. On September 29, the IMF approved $436.3 million in emergency postconflict assistance as a sign of support for reconstruction efforts through 2005 and to help catalyze additional international aid, including debt relief. The IMF loan was made possible by Iraq's having settled its $81 million in arrears to the IMF a week earlier. In addition, the bulk of Iraq's official bilateral creditors have reaffirmed their recognition of the IMF's preferred creditor status and indicated their willingness not only to make their best efforts to provide timely debt relief but also to defer Iraq's obligations falling due to them during the period of the program supported by the emergency postconflict assistance, which goes through 2005. Debt relief negotiations are expected to start soon under the aegis of the Paris Club. Several of Iraq's non–Paris Club creditors have indicated that they will follow the lead of the Paris Club regarding debt relief for Iraq.

Securing recovery

For the economic policymakers, the top agenda item was sustaining the global economic recovery. IMF Managing Director Rodrigo de Rato—attending the Annual Meetings for the first time as IMF chief—told delegates that over the past year, the recovery has become increasingly well established, with global GDP growth in 2004, at 5 percent, expected to be the highest in nearly three decades (see page 280). The IMF is forecasting that global growth will moderate

Left to right: ZHOU Xiaochuan, China's Central Bank Governor, stands with Alan Greenspan, U.S. Federal Reserve Chair, John Snow, Secretary of the U.S. Treasury, and JIN Renqing, China's Minister of Finance.

to 4.3 percent next year, partly reflecting the effects of higher oil prices (see *World Economic Outlook*, page 295). He also noted that financial markets have generally responded well to the start of the transition to higher interest rates. "In short, the world economy has mounted a vigorous recovery from the slowdown of 2001," he said, adding that "this is a remarkable performance in the face of the shocks experienced in the past few years."

Even so, de Rato cautioned, this is no time for complacency, with the risks to the forecast on the downside. To sustain recovery, policymakers need to monitor carefully the near-term effects of higher oil prices on their economies, ensure an orderly transition to higher interest rates, and tackle current account imbalances. On the last point, he urged the United States to reduce more energetically its hefty fiscal deficit, Europe to implement structural reforms, Japan to strengthen its financial and corporate sectors, and emerging market countries in Asia to adopt greater exchange rate flexibility.

Looking further ahead, de Rato counseled delegates to use this time of cyclical recovery to address structural challenges to continued global growth—including high public debt-to-GDP ratios and the imbalance between energy supplies and demand. He encouraged oil-producing countries in the Middle East—and in Africa, Latin America, and the Commonwealth of Independent States—to save current windfall revenues for bad times and be more transparent about the use of revenues from natural resource sectors. And he urged a greater political commitment to a successful conclusion of the Doha Round trade talks.

These remarks came on the heels of a call by the Group of Seven (G-7) finance ministers and central bank governors on October 1 for oil producers to provide adequate supplies to ensure that prices moderate, for consumer nations to boost efficiency, and for the International Energy Agency to improve oil data transparency. They also underscored the need for major countries or economic areas to pursue greater exchange flexibility "to promote smooth and widespread adjustments in the international financial system, based on market mechanisms" (see statement on page 289). For the first time, the G-7 ministers and central bank governors met informally with China's finance minister and central bank governor and exchanged views on, among other things, the economic impact of oil prices, macroeconomic policies in the G-7 countries, the Asian economic outlook, and exchange rate flexibility. There were further calls at the weekend's meetings, including from Managing Director de Rato and U.S. Treasury Secretary John Snow, for China to move toward greater flexibility for the exchange rate for the yuan—pegged at about 8.3 per dollar since 1995.

The Group of 24 developing countries, also meeting on October 1, expressed concern that "the growing U.S. external imbalance and the diversion of a substantial portion of world savings from developing countries to the largest and highly capitalized economy constitute a misallocation of resources and pose a serious short- and medium-term challenge for the international economy" (see communiqué on page 291). They called for a cooperative multilateral approach, specifically asking the IMF to undertake a more proactive role in this area and to enhance the effectiveness of its surveillance of major economies. In addition, they cautioned that "in the absence of appropriate crisis prevention mechanisms, developing countries must rely on excessive reserve accumulation as a form of insurance against crises."

Debt relief extended under HIPC Initiative

The World Bank and IMF Executive Boards agreed in September to continue providing debt relief under the Initiative for Heavily Indebted Poor Countries (HIPCs) by extending the Initiative's "sunset clause" for another two years to end-2006.

The HIPC Initiative, established in 1996, includes a sunset clause to avoid the adverse incentives of a permanent facility, minimize moral hazard, and encourage early adoption of reform programs. The Initiative is currently set to expire December 31, 2004. Members of the IMFC have recognized, however, that the end-2004 expiry of the clause—which has already been extended three times—would leave several eligible countries with unsustainable debt. This further extension is intended to give these countries more time to put in place the reform programs needed to establish their eligibility for debt relief under the HIPC Initiative. It also effectively closes the list of potential HIPCs by ring-fencing eligible countries, using income and indebtedness criteria based on end-2004 data.

The decision to extend the sunset clause was endorsed by the World Bank and the IMF Boards following a review of the most recent progress report on the HIPC Initiative.

Greater debt relief

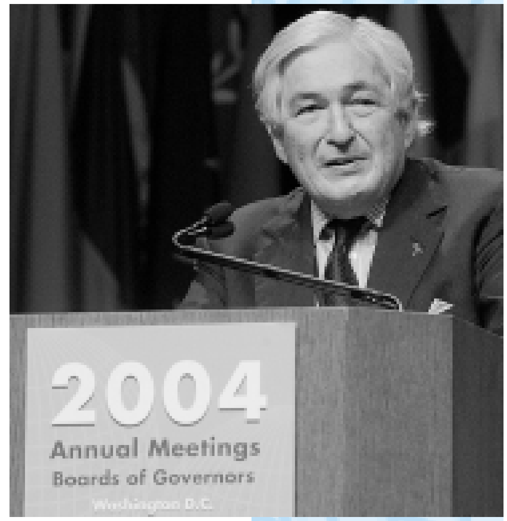
A second key issue at the meetings was the need for greater debt relief for the poorest countries, most of which are in sub-Saharan Africa. In the end, the meetings led to agreement on the need to step up debt relief efforts, but not on how to do so—other than extending for two years the period in which qualifying countries can seek debt relief under the Heavily Indebted Poor Countries Initiative (see box, page 278). The International Monetary and Financial Committee (IMFC) communiqué simply stated that "it looks forward to further consideration of outstanding issues in the proposed framework for debt sustainability, before it is made fully operational, and of further debt relief, including its financing."

Nonetheless, Gordon Brown, U.K. Chancellor of the Exchequer and Chair of the IMFC—the IMF's ministerial steering committee—told reporters that he was encouraged because there was a growing consensus that multilateral debt relief had to be dealt with as soon as possible, and the G-7 had committed itself to preparing a progress report on debt relief and grant financing by the end of the year (see IMFC press conference, page 285).

In recent weeks, the United Kingdom—which will hold the presidency of the G-7 in 2005 and of the European Union in the second half of the year—has called for a revaluation or off-market sale of IMF gold to fund the IMF's share of further multilateral debt relief and for additional donor resources to fund relief on debt owed by low-income countries to the World Bank and African Development Bank. In 1999, $2.6 billion of cash for debt relief was realized through off-market gold transactions. Under Brown's proposal, which he referred to as an attempt to "lead by example," the United Kingdom has pledged to pay its share (10 percent) of the debt service owed by the world's poorest countries to the World Bank and the African Development Bank. The United States, meanwhile, has also called for up to 100 percent relief of low-income countries' debts to the multilateral institutions, financed by the resources supporting the current lending facilities rather than new money.

On the broader issue of aid flows to developing countries, the joint IMF–World Bank Development Committee stressed the need for improved aid effectiveness, increased aid and other financial flows, and coherent policies to achieve development results (see communiqué on page 287). At stake is whether the global community can achieve the UN Millennium Development Goals—which include dramatic cuts in income poverty and achieving universal primary education, better health care, and lower child mortality—by 2015. Brown told reporters that at the current rate of progress, some of these goals would not be met for 150 years.

World Bank President James Wolfensohn chided world leaders for failing to make good on their commitments to the poor and for holding regular meetings that yielded little more than praise and blame. He told delegates that in today's world, every one of us is not only a national citizen but also a global citizen, adding that "without greater visible engagement by global leadership, we will not make the breakthroughs we need to ensure real security and peace."



Wolfensohn: "Without greater visible engagement by global leadership, we will not make the breakthroughs we need to ensure real security and peace."

A stronger voice

The top financial officials did not make any decisions about giving emerging market and developing countries a stronger voice in the governance of the two institutions, but the issue continued to percolate throughout the weekend. Reflecting mounting frustration with the pace of reform of governance in the Bretton Woods institutions, the Group of 24 ministers stated that "the current underrepresentation of developing countries in the decision-making processes undermines the credibility and legitimacy of the Bretton Woods institutions, and puts their relevance into question."

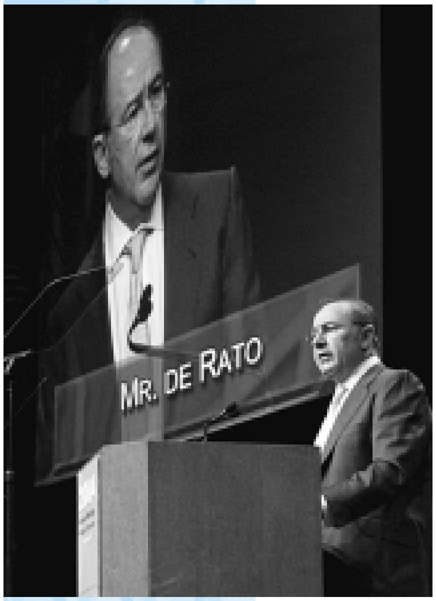
Development Committee chair Trevor Manuel, South Africa's minister of finance, told reporters that "we recognize that this matter has still not been resolved, and we are mindful of the fact that it's a political decision. But you can look at the numbers from any angle, and you come back to the fact that what we have isn't equitable." De Rato told delegates that "we must continue to find ways to guarantee that the voices of all our member governments are heard," and he stressed that many members wanted deeper progress on issues of voice and participation that would reflect the evolution of the world economy. "But changes in quota and voting shares," he noted, "will require a political consensus among our members that is not yet evident." ■

Laura Wallace
Editor, *IMF Survey*

De Rato's Annual Meetings address

IMF should not shy away from pointing out problems with members' economic policies

Following are edited excerpts from an address by IMF Managing Director Rodrigo de Rato to the Board of Governors of the IMF on October 3, in Washington, D.C. The full text is available on the IMF's website *(www.imf.org)*.



De Rato: "We must continue to find ways to guarantee that the voices of all our member governments are heard."

Let me begin with some thoughts on the global recovery and how to sustain it. Over the last year, the recovery has become increasingly well established. Global GDP growth this year is expected to be the highest in nearly three decades. In financial markets, the start of the transition to higher interest rates has been successfully managed by most countries. In short, the world economy has mounted a vigorous recovery from the slowdown of 2001. This is a remarkable performance in the face of the shocks experienced in the past few years. Looking ahead, there is much for our members to do to sustain the global recovery, and, therefore, there is much for the IMF to do to nudge them in the right direction.

Sustaining the global recovery

First, policymakers need to monitor carefully—and be prepared to address—the near-term effects of higher oil prices on their economies. To date, in many of our member countries, the impact of higher oil prices on output and inflation appears moderate. But a high oil bill places an especially heavy burden on the poorest countries, in part by reducing their ability to finance other much-needed imports.

Second, the challenge of maintaining an orderly transition to higher interest rates has not ended. The move to a neutral monetary policy stance should be continued through timely actions by central banks. Of course, the desirable pace and timing of monetary tightening vary among countries, depending on their cyclical situations and the extent to which oil prices are contributing to inflationary pressures.

Third, we also need to continue policy actions to have an orderly adjustment of current account imbalances. This is a global problem and the solution requires efforts by many countries. What is now needed is for U.S. fiscal policy to carry out a more ambitious deficit reduction over the medium term. European countries should use the recovery to implement structural reforms. Greater exchange rate flexibility in emerging Asia will serve both multilateral and national needs. In addition to reducing global imbalances, it would help countries in the region to better withstand external shocks.

Strengthening medium-term growth

We should also use this time of cyclical recovery to address structural challenges to continued global growth. First, there is a need to strengthen fiscal positions over the medium term, which will help developed and developing countries deal with the pressures from aging populations.

Second, we need energy policies that can bring about a better balance between energy supplies and demands. This balance can be achieved through changes in the structure of taxation, other policies to boost energy efficiency, and policies to encourage more innovation in alternative sources of energy, as well as investment in capacity expansion. In many oil-producing countries, there is a need to save windfall revenues. Increased transparency about the use of revenues from natural resource sectors is much needed, too.

Third, Doha Round negotiations are central to sustained growth. While recent framework agreements contain welcome commitments to reduce agricultural subsidies as part of an eventual settlement, they also leave many loose ends to be tied in other areas. A stepped-up political commitment is needed so that all countries can continue to benefit from a multilateral trading system.

Keeping the IMF effective

Promoting global financial stability. Surveillance is being sharpened to help countries adopt policies that will deliver sustained economic growth. A number of initiatives are also under way so that surveillance can provide early warnings of problems and hence serve as a better tool for crisis prevention. But to be effective, IMF surveillance must also prompt early action. There is room for improvement here.

First, a prerequisite for effective surveillance is that our analysis and arguments should be convincing and expressed candidly. We should not shy away from pointing out problems with countries' economic policies to their policymakers and to the international community. Making markets and the public aware of problems can prompt early action and strengthen the incentives for the adoption of good policies.

Second, country surveillance must be based upon a clear understanding of the specific circumstances of each country as well as the linkages across economies implied by financial integration. This requires that we intensify our firm surveillance of systemically important countries and of global capital markets.

Third, we must continue with the intensive health checkups of financial sectors conducted through the Financial Sector Assessment Program. In a world of contagion, a clean bill of health for a country's financial sector is good news not only for the country itself but for its trading and financial partners too.

But however good our surveillance is, crises will not disappear, and the IMF will be called upon to help mitigate their impact. That said, we also need an IMF that can say "No." The prospect of the IMF declining to provide financial support would strengthen the incentives to implement sound policies, thus avoiding the need for IMF support in the first place.

Assisting in the global war on poverty. Promoting financial stability through better crisis prevention and resolution is one aspect of the IMF's work. No less important is our work in low-income countries. National ownership remains the foundation of successful poverty reduction strategies. A homegrown initiative such as the New Partnership for Africa's Development is a very positive example. It acknowledges the responsibility of developing countries themselves to implement sound economic policies and strengthen governance and institutions.

We have seen encouraging results where such stability has been complemented by structural reforms and by targeting public spending to areas of greatest benefits to people. Where such improvements in policymaking are evident, developed nations should fulfill their end of the bargain by liberalizing trade and delivering aid. They should improve access to their markets for developing countries' exports and dismantle trade-distorting subsidies. There must also be increased aid, not just for the countries under the HIPC [Heavily Indebted Poor Countries] Initiative but for others as well.

Managing the IMF. Keeping the IMF effective will also require changes in its management practices. In addition to the work on the strategic direction of the IMF, we are working to ensure that the IMF is managed in a way that meets the highest standards of efficiency and financial integrity. This includes adopting a medium-term budget framework and conducting a review of the IMF's financial structure.

Voice and participation. We must continue to find ways to guarantee that the voices of all our member governments are heard. Many members want deeper progress on issues of voice and participation that would take into account changes happening in the world. But changes in quota and voting shares will require a political consensus among our members that is not yet evident. ■

CARTAC set to continue

The mandate of the Caribbean Area Regional Technical Assistance Center (CARTAC)—due to expire in early 2005—has been extended through 2007. In a meeting at the IMF on September 30, Marion Williams (center), Governor, Central Bank of Barbados, and Ewart Williams (left), Governor, Central Bank of Trinidad and Tobago—respectively, the chair and deputy chair of CARTAC's Steering Committee—discussed future plans with IMF Deputy Managing Director Agustín Carstens (right). The extension will allow the center to continue to enhance institutional and human resource capacities in the region and, in so doing, help CARTAC member countries strengthen their macroeconomic, fiscal, and financial sector policies. CARTAC, which was established in 2001, provides technical assistance and training to 20 Caribbean island countries and territories, and is supported by the IMF and eight bilateral and multilateral donors.

IMFC communiqué

Recovery offers room to tackle vulnerabilities that might hinder future growth

Following is the full text of the communiqué of the International Monetary and Financial Committee (IMFC) of the IMF's Board of Governors issued on October 2 in Washington, D.C.

The IMFC, chaired by Gordon Brown, Chancellor of the Exchequer of the United Kingdom, held its tenth meeting in Washington, D.C. The Committee welcomes Rodrigo de Rato as the new Managing Director and looks forward to working closely with him on furthering the goals of global stability and prosperity.

Global economy and financial markets

The Committee welcomes the strengthening and broadening of global economic growth in 2004, supported by a strong upturn in global trade, supportive policies, and favorable financial market conditions. The global expansion is expected to continue at a solid pace provided all countries implement policies and reforms that will promote robust, balanced, and sustainable growth. The Committee notes that downside risks to the recovery have recently increased, stemming in part from the increase and volatility in oil prices. These reflect geopolitical tensions, strong global demand, and market dynamics. The IMF stands ready to assist members that may be adversely affected.

From left to right: Roger Ferguson (U.S. Federal Reserve Board Vice-Chair), Alan Greenspan (U.S. Federal Reserve Chair), and Gordon Brown (U.K. Chancellor of the Exchequer and IMFC Chair).

The Committee reiterates the desirability of stability in oil markets and prices that are consistent with lasting global prosperity. To this end, it welcomes the decisions by oil-producing countries to continue to expand production and urges further measures to increase capacity, and calls on oil-consuming countries to take measures to promote energy sustainability and efficiency. The Committee also stresses the importance of dialogue between consumers and producers, and of further progress to improve oil market information and transparency.

The strength of the global recovery has set the stage for a gradual return to more neutral monetary policies, with the desirable pace and timing of tightening varying across countries, depending on cyclical positions. Continued good communication of policy intentions will be essential to facilitate orderly adjustment in financial markets to higher interest rates, where needed. Inflation remains low, and risks to price stability remain moderate. However, policymakers should be ready to contain any inflationary pressures, including from higher commodity prices, thereby ensuring noninflationary growth.

All countries should take advantage of the recovery to address medium-term vulnerabilities and challenges with renewed commitment. The Committee considers that bold reforms on a wide front are needed to strengthen fiscal positions, remove structural impediments to growth, support the correction of global imbalances, reduce financial and corporate vulnerabilities, and accelerate poverty reduction.

Fiscal consolidation remains a key priority in many countries. In the advanced economies, credible medium-term fiscal frameworks should be based on well-defined policies, and ensure progress on consolidation, particularly in good times. Reforms of pension and health care systems will also be critical to address the fiscal pressures from population aging. Although many emerging market countries are making good progress in improving the structure of public debt and strengthening fiscal positions, further efforts are needed to bring public debt down to levels that will build adequate resilience to shocks. Broad tax bases, effective and transparent public expenditure management, and structural measures to boost growth will be important to improve debt sustainability and meet social and infrastructure spending priorities.

Structural reforms remain crucial to strengthen the foundations for sustained growth. Most advanced economies should step up their efforts to increase economic efficiency and flexibility to take full advantage of the opportunities from rapid technological change and global integration. Boosting sustainable growth and increasing economic resilience across emerging market countries, depending on country circumstances, will involve completing financial and corporate sector reforms; strengthening banking supervision and developing domestic capital markets; improving the investment climate;

and promoting economic diversification. The Committee notes the importance of addressing the economic implications of demographic changes. Depending on country circumstances, policies will need to focus on boosting labor supply, increasing public and private savings, and lifting productivity.

Policies to support an orderly resolution of global imbalances are a shared responsibility, and key to reinforcing the basis for more balanced and sustainable growth. The Committee underscores the importance of progress on medium-term fiscal consolidation in the United States, continued structural reforms to boost growth in Europe and Japan, and, in emerging Asia, steps toward greater exchange rate flexibility, supported by continued financial sector reform, as appropriate. Also, improving information and transparency in markets, including the role of hedge funds, would help strengthen market surveillance. The Committee welcomes the recent improvement in Argentina's fiscal position since 2002. The Committee supports that Argentina decisively addresses all the outstanding structural issues in its program, completes a comprehensive and sustainable debt restructuring, and ensures a sustainable medium-term fiscal framework. We welcome the efforts by Argentina toward completing a comprehensive and sustainable debt restructuring and hope for an expeditious conclusion to the process.

The Committee emphasizes that in the coming months IMF surveillance should focus on a number of key issues, including the impact of higher oil prices, especially on the most vulnerable; the sustainability of medium-term fiscal positions and debt in many members; and managing the policy response to potential inflationary pressures.

The Committee calls on all partners to strengthen their commitment to the global effort to reduce poverty. The recent strong growth in most low-income countries is welcome, but the Committee is concerned that in many cases, particularly in sub-Saharan Africa, growth remains inadequate for achieving the Millennium Development Goals (MDGs) (as endorsed by heads of state and government in the UN General Assembly on September 8, 2000). The key challenge for these countries—as recognized in the New Partnership for Africa's Development—is to press ahead with efforts to further strengthen institutions and governance, to build on the macroeconomic stabilization that has been achieved. The international community needs to support these efforts with more open markets for these countries' exports, increased and better-coordinated aid and technical assistance, further debt relief, and sound policy advice.

An open and inclusive multilateral trading system is central to global growth and economic development, especially for developing countries. The Doha Round offers a unique opportunity for substantial progress toward this objective, and the Committee is encouraged by the recent decisions on negotiating frameworks. We endorse the "July Package" and urge all parties to work toward concrete advances in liberalizing trade, strengthening multilateral trade rules, and reducing trade-distorting subsidies, notably in agriculture. To achieve ambitious trade liberalization will require the full commitment of all parties, in particular strong leadership from the major trading nations and readiness of all countries to embrace the opportunities provided by more open trade. The Committee supports the IMF's continued role in advocating trade liberalization and assisting members, including through the Trade Integration Mechanism.

Francisco Gil-Diaz (left), Mexico's Secretary of Finance and Public Credit, confers with Hans Eichel, Germany's Minister of Finance.

Strengthening surveillance

Effective and evenhanded IMF surveillance across the whole membership is central to promoting high and sustainable growth in member countries and to crisis prevention. The increasing interdependence of the membership reinforces the importance of effective surveillance of systemically important countries and capital markets. The Committee welcomes the progress made in strengthening surveillance, and the steps identified during the recent biennial surveillance review to enhance its overall effectiveness. A focus on implementation is now needed. The Committee calls upon the IMF to continue its efforts to strengthen its economic analysis and policy advice, systematically evaluate the appropriateness of that advice, complement multilateral and bilateral surveillance with a focus on regional issues, improve the quality of the policy dialogue with members (including through increased cross-country analysis where relevant), strengthen communications to markets and the public of the IMF's policy messages while preserving its role as a candid and confidential advisor, and develop a methodology for better assessing the effectiveness of surveillance.

Toward meeting these objectives, the achievement of which should be assessed in the next surveillance review, the Committee agrees that priority should be given to sharpening the focus of Article IV consultations, including a deepening of the discussion of exchange rate issues; enhancing financial sector surveillance; and better integrating debt sustainability analysis and regional and global spillovers into country surveillance. Further progress in reducing balance sheet vulnerabilities and further work on surveillance in low-income countries will also be monitored in the next review of surveillance.

Klaus Liebscher (left), Governor of the Austrian National Bank, with Jean-Pierre Roth, Chair of the Governing Board of the Swiss National Bank.

Progress in bringing a fresh perspective to the surveillance of program countries should be kept under review, and lessons learned from ex-post assessments of program performance should be carefully implemented. It is important to assess the extent to which earlier IMF advice was acted on by countries, taking account of the countries' views. The Committee looks forward to the forthcoming reviews of the standards and codes initiative and the Financial Sector Assessment Program, reflecting the increasing importance of financial system stability. The Committee calls for a strengthening of efforts to ensure the objectivity of surveillance, including through enhanced debt sustainability analysis covering all member countries.

The Committee welcomes consideration of whether there are gaps in the IMF's range of instruments and policies. It notes the preliminary discussions of possible new modalities for high-frequency policy monitoring and delivering signals on the strength of a member's economic policies outside the context of an IMF financial arrangement. The Committee notes the role that existing precautionary IMF instruments are playing in signaling the strength of members' policies and the possible role for a precautionary Poverty Reduction and Growth Facility (PRGF), and precautionary and other financing instruments designed to prevent the emergence or spread of capital account crises. It calls for further work on these proposals, including the usefulness and potential demand, in close consultation with potential users, donors, and creditors, and calls for a report at its next meeting.

The Committee welcomes the increased adoption of collective action clauses in international sovereign bonds and calls on the IMF to continue to promote progress in this area. It notes recent initiatives aimed at achieving a broad consensus between sovereign issuers and their creditors on voluntary principles for emerging markets' crisis management and debt restructuring. The Committee looks forward to reviewing further work on general issues of relevance to the orderly resolution of financial crises, including implementation of the IMF's lending into arrears policy.

Support for low-income members

The Committee supports the ongoing work to clarify and strengthen the IMF's role in low-income countries, which should be based on country ownership and close cooperation with other multilateral institutions and bilateral donors. The IMF has an important role in supporting—through policy advice, capacity building, and financial assistance, including debt relief—low-income countries' efforts to achieve the macroeconomic stability and high growth needed to make progress toward the MDGs. The Committee looks forward to further work on the financing and modalities of the IMF's engagement with low-income members, including the financing of the PRGF after 2006 to maintain adequate capacity to meet future needs, instruments to help members face shocks, and ways to improve monitoring and signaling. The Committee notes the joint report of the IMF and the World Bank on aid effectiveness and financing modalities. It encourages further analysis by the World Bank and the IMF of aid effectiveness, absorptive capacity, results-based measurement mechanisms, and financing modalities and mechanisms to augment aid flows, such as the International Finance Facility, global taxes, and other innovative mechanisms, and looks forward to a further report.

The Committee supports continued efforts to strengthen the Poverty Reduction Strategy Papers (PRSP) approach and IMF support to low-income countries under the PRGF. It welcomes the report of the Independent Evaluation Office (IEO) on the PRSP/PRGF, and the work under way to follow up on its recommendations. To support implementation of the Monterrey Consensus, the poverty reduction strategy process should be improved and become better integrated into each country's domestic policy-making processes, and international assistance, including from the IMF, should become more fully coordinated with domestic economic priorities. The Committee looks forward to the work on improving the role of the IMF in the poverty reduction strategy process, and on the design of policy programs supported by the PRGF. It calls for increased incorporation of poverty and social impact analysis into PRGF-supported programs, and for more extensive analyses of the sources of and obstacles to growth, and the linkages between poverty reduction and economic growth.

The Committee welcomes the progress in providing debt relief under the Heavily Indebted Poor

Countries Initiative, which has been extended for two more years, encourages eligible countries to take the necessary actions to benefit from the Initiative, and urges full creditor participation. The Committee supports the IMF's and the World Bank's work on a single framework to assist low-income countries' efforts to achieve and maintain robust debt sustainability while pursuing their development objectives. It looks forward to further consideration of outstanding issues in the proposed framework for debt sustainability, before it is made fully operational, and of further debt relief, including its financing.

Other issues

The IMF's effectiveness and credibility as a cooperative institution depend on all members having appropriate voice and full participation in its processes. The Committee takes note of the IMF Executive Board's status report regarding work on quotas, voice, and representation. It encourages the Board to consider further issues of voice, quotas, and participation, noting as the Board agreed, that progress will require broad consensus among the shareholders. The Committee recommends completion of the ratification of the Fourth Amendment.

The IMF's liquidity is adequate to meet the near-term projected needs of its members, although continued monitoring will be important.

The Committee expresses its appreciation of the work of Montek Singh Ahluwalia as first Director of the IEO. It looks forward to continued high-quality reports by the IEO.

The sixtieth anniversary of the IMF is a timely opportunity to reflect on the forces that will help shape the institution's priorities going forward. The Committee welcomes the preliminary consideration by the Executive Board of the work on the IMF's strategic direction initiated by the Managing Director and looks forward to a discussion at its next meeting. It also welcomes the continuing progress in reforming the IMF's budgetary framework.

The next meeting of the IMFC will be held in Washington, D.C., on April 16, 2005. ■

IMFC press conference

Search continues for debt relief accord

How to finance additional debt relief for the world's poorest countries was the main focus of the press conference that followed the twice-yearly meeting of the 24-member International Monetary and Finance Committee (IMFC). The United Kingdom's Chancellor of the Exchequer Gordon Brown, in his capacity as chair of the IMFC, and IMF Managing Director Rodrigo de Rato answered questions from reporters about the status of proposals to revalue the IMF's gold, create an International Finance Facility, issue SDRs to finance more aid, and institute a global tax. Brown and de Rato also took questions on plans to develop a new IMF instrument to help markets assess countries' economic policies and on increasing the voice and participation of developing countries in IMF decision making.

"There is now a growing consensus that multilateral debt relief has to be dealt with as soon as possible," Brown told reporters. Most debts now owed by Heavily Indebted Poor Countries (HIPC) are to the IMF, the World Bank, and the African Development Bank. The United States has proposed to write off all multilateral debt owed by poor countries to these three institutions, he said, and many more countries agree that the next stage of dealing with the debt overhang involves the total cancellation of multilateral debt (under the current HIPC Initiative, 50 percent or less of debt is cancelled). But funding for multilateral debt relief would have to come from a new mechanism and must not substitute for existing resources, Brown said.

Brown: "The world community must make a decision about how it is going to keep its promises and bridge the gap between the rhetoric of 2000 and the reality we see in 2004."

Currently, 27 highly indebted poor countries are receiving debt relief under the HIPC Initiative. Brown noted that the IMFC has decided to top up relief for some of these countries and extend the life of the HIPC Initiative for another two years to keep the door open for those countries that are eligible but have not yet applied for debt relief.

When asked if there was support for the proposal to revalue the IMF's gold holdings as a means of financing multilateral debt relief, Brown said the Group of Seven had agreed to further discuss the matter. "I don't think most countries have any ideological objections and, of course, the revaluation that was done in 1999 sets a precedent. If we are going to solve the problem of multilateral debt, we have to find an innovative way, and I have no doubt that it will come back to the use of gold in the case of the IMF," he said.

IMF Managing Director Rodrigo de Rato and IMFC Chair Gordon Brown listen to a reporter's question.

An off-market gold transaction was carried out in 1999 to finance the IMF's participation in the enhanced HIPC Initiative. "What we are suggesting now is not exactly the same," Brown said, "but we believe that there can be some investigation of market transactions." He noted that the current value of IMF gold—about one-eighth of its market value—provides considerable scope.

For its part, the United Kingdom is proposing to help pay for the cost of providing 100 percent multilateral debt relief for the poorest countries by paying its share—amounting to about 10 percent—of these countries' debt service owed to the World Bank and the African Development Bank until 2015, Brown said. His country was also still building support for its proposal to create an International Finance Facility, which would leverage existing aid by raising money in international capital markets. "As people realize that the Millennium Development Goals cannot be met with existing resources, the world community must make a decision about how it is going to keep its promises and bridge the gap between the rhetoric of 2000 and the reality we see in 2004," he said. "There is a lot more work to do, but I believe people are beginning to understand the urgency of solving this problem and the fact that the funding gap cannot be closed by traditional means."

A reporter inquired about the status of a proposal by George Soros to finance additional development aid by issuing SDRs, an international reserve asset created by the IMF in 1974 to supplement the existing official reserves of its member countries. Brown said the proposal had been discussed but did not command the support that some of the other proposals enjoyed. The IMFC has indicated its willingness to look at other proposals to raise funds for development aid, including a proposal by French President Jacques Chirac and Brazilian President Luiz Inácio Lula da Silva for global taxes.

Replacing the CCL?

De Rato was asked whether he saw room for developing a new version of the Contingent Credit Lines (CCL)—a facility for countries with good economic track records that was allowed to expire last year. He responded that the IMF's Executive Board had discussed the need for a new instrument to help countries that are making important reform efforts signal progress to the markets. Some members of the Board favored programs with no borrowing attached, whereas other members were leaning more toward pursuing existing precautionary arrangements, where members may draw on IMF resources if they see a need. "We are in the middle of the discussion," de Rato said.

Brown added that the IMFC has stressed the importance of IMF surveillance, or oversight, of member countries' economies and the need for greater transparency—including in the context of signaling. "We welcome the fact that Article IV reports are now published and available for everybody to see," Brown said.

Voice and participation

There was press interest, too, in whether progress has been made on increasing the participation of developing countries in the IMF. De Rato said he had discussed the issue with the Group of 24. But, he said, "there has to be political consensus among member countries in order to arrive at a solution," adding that "this important issue should be addressed by the membership." ■

Selected IMF rates

Week beginning	SDR interest rate	Rate of remuneration	Rate of charge
September 20	2.01	2.01	3.10
September 27	2.02	2.02	3.11
October 4	2.01	2.01	3.10

The SDR interest rate and the rate of remuneration are equal to a weighted average of interest rates on specified short-term domestic obligations in the money markets of the five countries whose currencies constitute the SDR valuation basket. The rate of remuneration is the rate of return on members' remunerated reserve tranche positions. The rate of charge, a proportion of the SDR interest rate, is the cost of using the IMF's financial resources. All three rates are computed each Friday for the following week. The basic rates of remuneration and charge are further adjusted to reflect burden-sharing arrangements. For the latest rates, call (202) 623-7171 or check the IMF website *(www.imf.org/cgi-shl/bur.pl?2004)*.

General information on IMF finances, including rates, may be accessed at *www.imf.org/external/fin.htm*.

Data: IMF Finance Department

Development Committee communiqué

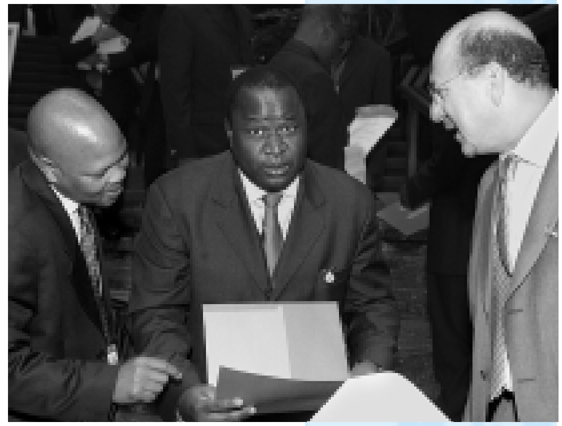
Higher, more effective aid vital for achieving Millennium Development Goals

Following is the full text of the Development Committee communiqué issued on October 2, in Washington, D.C.

As we celebrate the sixtieth anniversary of the Bretton Woods institutions and approach the fifth anniversary of the UN Millennium Declaration, we recommit ourselves to supporting efforts by developing countries to pursue sustainable growth, sound macroeconomic policies, debt sustainability, open trade, job creation, poverty reduction, and good governance. These actions need to be reinforced by stronger international action and partnerships, including reforming trade, more and more effective aid, and stronger private flows in order to make progress on the Millennium Development Goals (MDGs) (as endorsed by heads of state and government in the UN General Assembly on September 8, 2000). We remain concerned that most goals will not be met by most developing countries.

Global economic growth is strong, supported by exceptionally robust growth in developing countries, as the world benefits from the significant reforms undertaken by many countries over recent years. Private-sector-driven growth resulting in new jobs and higher tax revenues, which can be used to finance poverty-reducing public expenditures, is critical to the success of country-led efforts to reduce global poverty. Success in the Doha Development Agenda can only complement these developments, and we stress the importance of translating the recently agreed World Trade Organization frameworks into tangible results. We urge all countries, developing and developed, to participate fully in the negotiations and urge the IMF and the World Bank to continue to support work to this end, and to help developing countries assess the impact and to provide additional support to address potential adjustment costs.

To help developing countries take advantage of the new opportunities that can arise from a better economic setting and to strengthen the foundations for economic growth, we welcome the renewed focus being given by the World Bank Group to private sector development, improving the investment climate, and strengthening financial sectors, and urge the Bank to continue to translate this into country operations. Complementing macroeconomic stability, capacity building, and a greater results focus in public services and institutions and improving the quality of governance, successful private sector investment, social development as well as gender equality are key to accelerating pro-poor growth. We note the important role played by remittances in this context. We urge the Bank to intensify its analytical work on the potential sources of growth and ways to mobilize them and to help countries build the relevant analytical capacity.



From left to right: Mshiyeni Belle, Head of International Relations of the South African Reserve Bank's Research Department; Tito Titus Mboweni, Governor of South Africa's Reserve Bank; and Trevor Manuel, Chair of the Development Committee and South Africa's Finance Minister.

Strengthening the foundations for growth will also critically depend on addressing large infrastructure needs in many countries. We welcome the Bank Group's plans to scale up activities in implementing the Infrastructure Action Plan and urge accelerated support of country efforts in accordance with the Bank's safeguards. We emphasized the importance of addressing maintenance and other costs to ensure the sustainability of infrastructure investments. We also stressed the need to pursue—together with the IMF—efforts to increase fiscal space for public infrastructure investments within limits of fiscal prudence and debt sustainability. We also endorse further Bank engagement to meet infrastructure needs at the regional and subsovereign levels, enhancing application of risk mitigation instruments, and continuing efforts to offer a more complete and seamless client product line across the World Bank Group; accordingly, we urge the Bank to present options to its Board to move this agenda forward concretely. These actions will be particularly important in enhancing the Bank's support for development in middle-income countries, as well as in low-income countries.

These and other actions required to lay the basis for sustained stronger growth are critical to our ability to achieve the MDGs, as is progress in providing effective health systems (in particular tackling HIV/AIDS, malaria, and other communicable diseases), education for all, and other basic social services. We noted the special needs of low-income countries under stress, where technical assistance is especially necessary to strengthen weak policies and institutions. We look forward to reviewing progress in all these areas in the second Global Monitoring Report at our next meeting.

We agree that reform efforts in developing countries must be supported by improved aid effectiveness, increased aid and other financial flows, and coherent policies to achieve development results. The international community has agreed to harmonize and align their support behind country-owned development strategies, streamline the use of conditionality, increase the focus on results, and use country systems where appropriate. We are committed to using the Second High-Level Forum on Harmonization in Paris next spring to translate these agreements into clear and specific commitments and timetables and call for the development of indicators and benchmarks to monitor the participation of all partners in this effort at the country level.

Trevor Manuel, Chair of the Development Committee and South Africa's Finance Minister chats with Agnes Van Ardenne, the Dutch Minister for Development Cooperation.

We must also enhance our efforts to help developing countries build capacity and address absorptive capacity constraints. We welcome the progress achieved to date in implementing the poverty reduction strategy process as indicated in recent independent evaluations. We note the important challenges that remain in implementing the approach fully and effectively both at the country level and in the Bank and the IMF and among other development partners, and welcome the revisions to the poverty reduction strategy architecture to help achieve this. One area that deserves closer attention in next year's poverty reduction strategy report is the continued efforts by the Bank and the IMF to streamline their aggregate conditionality. We also call on the Bank to review its own policy and practice on conditionality and report at our meeting in fall 2005.

The provision of additional, predictable, and timely financial assistance to countries committed to sound policies remains a critical issue, particularly for sub-Saharan Africa. We urge those donors that have not yet done so to make concrete efforts toward the target of 0.7 percent of GNP as official development assistance. We welcome the progress announced by some countries, including, in some cases, the setting of clear timetables to achieve this objective. We also reaffirm our commitment to a substantial and timely replenishment of the International Development Association, recognizing the critical timetable to reach the MDGs.

To address the needs for additional stable and predictable financing to help developing countries undertake ambitious investment plans to meet the MDGs and to finance associated recurrent costs where appropriate, we reviewed proposals to complement increased aid flows and commitments with innovative mechanisms. We welcomed World Bank and IMF analysis of these options, notably the International Finance Facility, global taxes, and voluntary contributions, including the analysis of their technical feasibility. We also took note of the international meeting on Action Against Hunger and Poverty convened by President Luiz Inácio Lula da Silva on September 20, 2004, in New York. We ask the Bank and the IMF to continue their work and report at the next meeting on how to take such options forward. We also encourage the Bank to explore the potential for increasing leverage through blending aid with other flows, including multilateral development bank lending.

Debt sustainability is an essential underpinning for growth. We reviewed progress under the enhanced Heavily Indebted Poor Countries Initiative, welcomed the recent decision to extend the sunset clause, and urged full creditor participation. We welcome the development of a forward-looking debt sustainability framework that aims to help low-income countries manage their borrowings and avoid a buildup of unsustainable debt, while pursuing the MDGs. We stressed the need to provide resources to low-income countries on appropriate terms, including the degree of concessionality and level of grant financing. We look forward to further work on the remaining issues by the Bank and the IMF to make the framework operational as soon as possible. We underscore the need for joint Bank–IMF Debt Sustainability Analyses (based on a clear division of labor) to provide countries, and their development partners, with clear and coherent analysis and guidance. We also urge the Bank and the IMF to accelerate their work on means to help mitigate the impact of exogenous shocks on low-income countries and to report to their Boards at an early date.

We also reviewed reports from our Boards with respect to their work on enhancing the voice and participation of developing and transition countries in our institutions. This work takes place within a broader context of reflections on how best to address governance issues within the international community. We welcomed the progress to date in making Bank and IMF operations more responsive to borrowers' needs. We urge the Boards to cooperate closely together in exploring all relevant options and to strive to achieve consensus among all members. We look forward to receiving a report regarding the feasibility of these options, to allow us to address the necessary political decisions at our next meeting.

The next meeting of the Committee will be held in Washington, D.C., on April 17, 2005. ■

Group of Seven statement

Ministers call for greater exchange rate flexibility

Following is the statement issued by the Group of Seven at the conclusion of its meeting in Washington, D.C., on October 1.

Members of the Group of Seven gather at the Treasury building in Washington, D.C. The ministers are (left to right) Dutch Finance Minister Gerrit Zalm representing the European Union, Sadakazu Tanigaki of Japan, Gordon Brown of the United Kingdom, John Snow of the United States, Hans Eichel of Germany, Alexei Kudrin of Russia, Nicolas Sarkozy of France, Domenico Siniscalco of Italy, and Ralph Goodale of Canada.

We thank the United States for presiding over the Group of Seven this past year, and we are gratified by the international economic cooperation that has resulted in new initiatives such as the Agenda for Growth, the Strategic Review, the Global Remittance Initiative, and new Group of Seven outreach to both the Broader Middle East and North Africa countries and to China. We welcome the United Kingdom to the Group of Seven presidency in 2005, and we will continue to work together on these and new initiatives.

Global economic growth is strong and the outlook for 2005 remains favorable. Inflation and inflation expectations remain low in our economies. However, this is not the time for complacency. Growth is higher in some regions than in others; imbalances persist. Oil prices remain high and are a risk. So first, we call on oil producers to provide adequate supplies to ensure that prices moderate. Second, it is important that consumer nations increase energy efficiency. Third, it is important for consumers and producers that oil markets function efficiently, and we encourage the International Energy Agency to enhance its work on oil data transparency. We will return to the issue of medium-term energy demand and supply at our next meeting.

We reaffirmed our commitment to sound public finances and to strategies for sustained medium-term fiscal consolidation. Today we released a new report on our Agenda for Growth in which we agreed to make pro-growth structural reforms a regular part of our work to create more jobs and increase productivity. We welcome recent progress on the Doha Development Round.

We reaffirm that exchange rates should reflect economic fundamentals. Excess volatility and disorderly movements in exchange rates are undesirable for economic growth. We continue to monitor exchange markets closely and cooperate as appropriate. In this context, we emphasize that more flexibility in exchange rates is desirable for major countries or economic areas that lack such flexibility to promote smooth and widespread adjustments in the international financial system, based on market mechanisms.

We remain firmly committed to continue to cooperate in combating terrorist financing, which is essential for reducing the risks of terrorist attacks.

Emerging market economies generally face favorable financial conditions; interest rate spreads are low and volatility is down in many markets. We urge emerging market countries to take advantage of the favorable global economic conditions to lessen their vulnerability to external shocks. We urge the Argentine authorities to implement, as soon as possible, the prior actions required for the completion of the Third Review while fulfilling their current obligations fully and timely. Argentina's key challenges remain structural reforms, building a sound fiscal framework, and achieving high creditor participation in a sustainable debt restructuring. We welcome the approval by the IMF of a sound and credible program for Iraq, which is an important step toward our commitment to resolve Iraq's debt before the end of 2004. We welcome the financial assurances given by Iraq's creditors that made this IMF program possible.

We continue to support efforts to increase economic growth and reduce poverty in poor countries. We welcome the agreement to increase funding for the Asian Development Fund, and we look forward to new replenishments of the African Development Fund and International Development Association. We reaffirm our commitment to fight global poverty and to help countries achieve the international development goals of the Millennium Declaration through our work on debt sustainability, aid effectiveness, absorption capacity, and financing facilities. There is a need for additional financial aid grounded on the principles of good policies, debt sustainability, accounting for results, and enhancing predictability and aid effectiveness. We encourage the development banks to provide quantifiable indicators and results for all projects, and to make them publicly available. We are now committed to addressing the sustainability of debt of the poorest countries by making progress on debt relief and grant financing. We will prepare a progress report on these efforts by the end of the year. ■

Group of 10 communiqué

Vigilance needed to maintain IMF's strong financial position

Following is the text of the communiqué issued by the Group of 10 at the conclusion of its meeting in Washington, D.C., on October 3.

John Snow (left), Secretary of the U.S. Treasury, with Sir Andrew Large, Chair of the Deputies of the Group of 10.

The Finance Ministers and Central Bank Governors of the countries of the Group of 10 met in Washington, D.C., on October 3, 2004. John W. Snow, Secretary of the Treasury of the United States and current Chair of the Group of 10, presided. Ministers and governors took note of reports from Sir Andrew Large, Chair of the Deputies of the Group of 10; John Taylor, Chair of Working Party No. 3 of the Organization for Economic Cooperation and Development (OECD); Malcolm Knight, General Manager of the Bank for International Settlements; and Rodrigo de Rato, Managing Director of the IMF.

Ministers and governors reviewed the financial position of the IMF. They noted that the strong financial position of the IMF is essential for the fulfillment of its responsibilities. This strength reflects, among other factors, the quality of IMF conditionality, the solid history of repayment of IMF loans by borrowers, preferred creditor status, and the IMF's large gold holdings. Moreover, measures have been taken in recent years to reinforce the financial integrity of the IMF, including a strengthened framework for exceptional access in the context of capital account crises, involving the private sector in the resolution of crises, a proactive arrears strategy, and the continued buildup of IMF reserves. Ministers and governors agreed that these measures must be applied rigorously in order for the financial position of the IMF to remain strong.

Ralph Goodale (left), Canada's Minister of Finance, with Toshihiko Fukui, Governor of the Bank of Japan.

Looking ahead, ministers and governors agreed that in a constantly changing global environment the IMF will need to monitor these changes continuously. They also agreed that the IMF should ensure its ability to respond to any challenges, such as high exposures to individual borrowers, that might affect its financial position. Addressing these challenges will require strengthening surveillance, continued strong conditionality, effective program monitoring, increased emphasis on debt sustainability analysis in lending decisions, and strict adherence to the recently agreed exceptional access framework. It will also require considering further changes in the IMF's financial structure to strengthen incentives for timely repayment and to reduce the incidence of successor arrangements. Ministers and governors agreed that the IMF's Executive Board should give ongoing consideration to steps to further strengthen the financial position of the IMF and ensure its responsiveness to the continued evolution of the world economy. They also agreed to continue to regularly assess, as needed, the evolution of potential risks that might affect the financial position of the IMF and other international financial institutions in the future.

Ministers and governors also welcomed the increasingly widespread use of collective action clauses (CACs) in external sovereign bond issues. They noted, in particular, that over the past year, CACs have become the market standard for external sovereign bonds issued under New York law. This achievement is and will be important for providing greater predictability in the resolution of sovereign debt problems. They agreed that there has been welcome, market-based evolution in the use of CACs, and they look forward to continued progress in this regard by issuers and their creditors. They encouraged sovereign debtors and private creditors to continue their work on a voluntary set of principles on sovereign debt restructurings.

Ministers and governors called on the OECD's Working Party 3 to assess the cross-border impact of structural reforms as part of its normal discussion of macroeconomic performance.

The State Minister of the Economy, Finance, and Industry of France, Nicolas Sarkozy, was elected Chair of the Group of 10 for the coming year. ■

Photo credits: Henrik de Gyor, Padraic Hughes, Eugene Salazar, and Michael Spilotro for the IMF, pages 277–96; and Brendan Smialowski for AFP page 278.

Group of 24 communiqué

Underrepresentation of developing countries puts credibility of IMF, World Bank in question

Following is the communiqué issued by the Group of 24 on International Monetary Affairs and Development after its meeting in Washington, D.C., on October 1.

Global economic prospects

Ministers welcome the continued strengthening in global growth prospects, but note that significant downside risks remain, including ongoing large payments imbalances, the move toward a higher interest rate environment, the volatility of oil prices exacerbated by downstream supply constraints, and serious geopolitical concerns. Moreover, while economic growth has become increasingly broad-based, some regions continue to lag behind. In particular, growth in sub-Saharan Africa, while improving over the recent period, remains at levels inconsistent with achieving sustained poverty reduction and reaching the Millennium Development Goals (MDGs).

Ministers consider that, while the significant fiscal expansion and accommodative monetary policy in the United States have helped to support the global recovery, resolute action will be needed over the medium term to return fiscal policy to a sustainable path and address the large current account deficit. This would help to minimize the risk of disorderly exchange rate movements and a sharp increase in interest rates that would undermine the global recovery. In addition, the growing U.S. external imbalance and the diversion of a substantial portion of world savings from developing countries to the largest and highly capitalized economy constitute a misallocation of resources and pose a serious short- and medium-term challenge for the international economy.

Ministers believe that higher growth in the European Union is essential to the continuation of the global recovery process, and see a need for maintaining an accommodative monetary policy stance and for a deepening of structural reforms. They welcome the recovery of the Japanese economy, and encourage the authorities to address the lingering imbalances in the financial and corporate sectors to help boost domestic sources of growth. Ministers recognize the strong contribution that emerging market economies are making to the global recovery, and encourage a greater role for these countries in international economic policy coordination. Ministers welcome the ongoing efforts made by oil-producing countries to stabilize the oil market. These efforts should be supported by closer consumer-producer cooperation.

Ministers consider that to effectively address global imbalances and to sustain high growth momentum, a cooperative multilateral approach is essential, and call upon the IMF to undertake a more proactive role in this area and to enhance the effectiveness of its surveillance of major economies.

Ministers remain deeply concerned about the deteriorating situation in the occupied Palestinian Territories, the construction of a wall in the West Bank, and its adverse social and economic ramifications on the Palestinian people. They call on the IMF and the World Bank to intensify their assistance to the Palestinian people. Ministers are concerned about the economic and security situation in Iraq, and call on the Bretton Woods institutions and other donors to intensify their assistance and accelerate the disbursement of aid pledged at the Madrid Donors Conference in October 2003. Ministers welcome the Emergency Post-Conflict Assistance (EPCA) that the IMF is providing to Iraq, which should catalyze adequate debt relief from Iraq's creditors. They found the approach of the IMF in the application of the EPCA policy to be innovative and flexible. Such flexibility should be an example in addressing other potential EPCA cases.

Ministers deeply regret the loss of life and severe property damage caused by the hurricanes that recently struck the Caribbean region. They call on the multilateral institutions and the rest of the international community to provide prompt and substantial concessional assistance to the affected countries.

Trade

Ministers welcome the resumption of the Doha Round of multilateral trade negotiations. They reiterate that the Doha Round should result promptly in improved market access for developing country exports, the dismantling of tariff escalation schemes, and the elimination of tariff peaks and nontariff barriers. The Doha Round should also result in an accelerated reduction of industrial and agricultural tariffs, the phasing out of subsidies in agriculture (particularly the removal of all export subsidies), the expansion of agricultural tariff-rate quotas, as well as ensuring its transparent administration. Tariffs in such areas as textiles, clothing, and footwear should

Conrad Enill, Chair of the Group of 24 and Minister of Finance of Trinidad and Tobago.

Paul Toungui, Vice-Chair of the Group of 24 and Minister of Finance, Economy, Budget, and Privatization of Gabon.

be removed. Ministers caution that the dismantling of the quotas under the Multifiber Agreement on January 1, 2005, should not lead to the imposition of other protectionist measures. They urge the Bank and the IMF to intensify their efforts to develop clear strategies to assist countries in adjusting to greater trade liberalization.

Crisis prevention and resolution

Ministers note that, in the absence of appropriate crisis prevention mechanisms, developing countries must rely on excessive reserve accumulation as a form of insurance against crises, and believe that the IMF should play a much larger role in this regard. They urge the IMF to develop effective lending facilities to assist countries in the prevention of financial crises, and to make precautionary financing available to countries pursuing strong policies, but which remain vulnerable to exogenous shocks to their capital accounts.

Ebrahim Sheibani, Governor of the Central Bank of the Islamic Republic of Iran.

Ministers question the benefits of creating an instrument for signaling purposes, such as the proposed Policy Monitoring Arrangement, with stringent conditionality and no financing. Such an instrument would be inferior to existing precautionary arrangements that allow countries to borrow in case of need. While the instrument has been presented as "voluntary," here is a high probability that it would, in fact, become a requirement for lending, grants, and debt relief. Furthermore, the proposed instrument would be contrary to the purposes of the IMF as an institution of international monetary cooperation and would substitute for existing facilities by minimizing lending to low-income countries. Ministers note that the capacity of the IMF to discharge its role has been eroded over time by the decline in quotas relative to world output, and call for a sizable quota increase as soon as possible.

P. Chidambaram, India's Minister of Finance.

Governance of Bretton Woods institutions

Ministers note that, despite the increased role of developing countries in the world economy since the creation of the IMF and the World Bank, the governing structures of the Bretton Woods institutions have not evolved in line with this transformation. Recalling that the Monterrey Consensus calls for enhancing the participation of developing countries in the decision-making processes of the IMF and the World Bank, ministers express strong disappointment and concern that, after two and a half years, no progress has been made on the issues of increasing basic votes and revising the quotas of developing countries in the IMF and their capital shares in the World Bank. They stress that the current underrepresentation of developing countries in the decision-making processes undermines the credibility and legitimacy of the Bretton Woods institutions, and puts their relevance into question.

Ministers consider that enhancing the representation of developing countries requires a new quota formula to reflect the relative size of developing country economies. The formula should be simplified to give greater weight to measures of gross domestic product in terms of purchasing power parity, and take into account the vulnerabilities of developing countries to movements in commodity prices, the volatility of capital movements, and other exogenous shocks. In addition, basic votes should be substantially increased to restore their original role in relation to total voting power and to strengthen the voice of small countries. Ministers are concerned that the updated quota calculations contained in the report to the International Monetary and Financial Committee and the Development Committee continue to understate the role of developing countries in the world economy and run counter to the good governance, legitimacy, and best interests of the Bretton Woods institutions.

Ministers noted that the term of the President of the World Bank will expire next June. In the event that he does not seek another term of office, they call for the initiation of a transparent selection process, with a view to attracting the best candidates regardless of nationality. The process should be in keeping with the recommendations of the Executive Directors contained in the reports of the World Bank Working Group to Review the Process for Selection of the President and the IMF Working Group to Review the Process for Selection of the Managing Director.

Achieving the MDGs

Ministers express serious concern that on current trends, most MDGs will not be met by most countries. They therefore call for the adoption of additional measures to implement the Monterrey Consensus. Ministers note that while developing countries are doing their part in maintaining macroeconomic stability and in pursuing structural reforms, developed countries are lagging behind in fulfilling their commitments made at Monterrey. In particular, advanced economies continue to fall far short of reaching the agreed UN target of 0.7 percent of gross national income for official development assistance. Ministers note with concern that financial flows from the World Bank and the regional development banks continue to give rise to increasingly large negative net transfers of resources to developing countries.

Ministers emphasize that, as agreed in Monterrey, achieving the MDGs will require a significant increase in development assistance. They welcome the new U.K. initiative for paying their share of the poorest countries' debt service owed to the International Development Association and the African Development Bank's concessional financing arm up to 2015. Ministers urge other advanced economies to join in this effort. They also believe that the proposed International Financing Facility merits further consideration, as a way of front-loading resources to meet the MDGs, and this facility should be implemented rapidly. Ministers also underscore the need for additional measures to increase aid, including the creation and voluntary redistribution of SDRs and other sources of revenues. To improve the effectiveness of aid, ministers stress that urgent action should be taken by the donors to reduce the administrative burden by improving the coordination and harmonization of aid policies as well as to increase the predictability of aid flows to low-income countries.

Ministers welcome the increase in grant financing to low-income countries, but underscore that grants should be supported by additional contributions from donor countries. Ministers welcome the amendment to the Poverty Reduction and Growth Facility (PRGF)–Heavily Indebted Poor Countries Trust instrument to provide for full topping-up in cases where the member country's debt parameters are affected by exogenous factors. They stress that additional resources need to be mobilized soon to sustain the PRGF.

Ministers welcome the World Bank's action plan for enhancing support to middle-income countries, which have a large proportion of the world's poor. They call for increased development financing to support large social and infrastructure investment needs to help these countries meet the MDGs. This assistance should be provided on a flexible basis and on concessional terms. Ministers welcome the ongoing work of the IMF and the World Bank to accommodate sound infrastructure investment in measuring fiscal outcomes in developing countries.

Ministers consider that low-income countries need balance of payments support of the type provided under the IMF's Compensatory Financing Facility since these countries are particularly prone to exogenous shocks, which tend to have a prolonged adverse impact on their economies. These funds need to be provided promptly and at low cost to meet emergency needs, including rising oil import costs, and to sustain the momentum of reforms. Where the impact of the shocks is longer term, the assistance should be provided on concessional terms.

Ministers welcome the Report of the World Commission on the Social Dimensions of Globalization, which provides guidance for placing employment at the center of the MDGs and the development agenda. They underscore the role of employment in poverty reduction and call for the Bretton Woods institutions to stress employment creation in their programs and policy advice. Ministers welcome the outcome of the September 20 UN informal meeting of Heads of State on Action Against Hunger and Poverty, and urge the Bank and the IMF to pursue further work to develop the proposals coming out of the meeting.

Country-owned procedures

Ministers are of the view that the World Bank and other multilateral development banks should make every effort to implement their commitment to simplification, harmonization, and reducing the cost of doing business. They consider that the use of domestic rules and procedures in Bank operations is one of the ways to achieve these objectives. Ministers recognize the steps already taken by the Bank to permit the use of domestic rules and procedures for national competitive bidding and financial management. They endorse the Bank's readiness to extend the use of these country-owned procedures to international competitive bidding, procurement of international consultants, and environmental and social safeguards, and encourage the Bank to urgently address the legal impediments to the national implementation of projects.

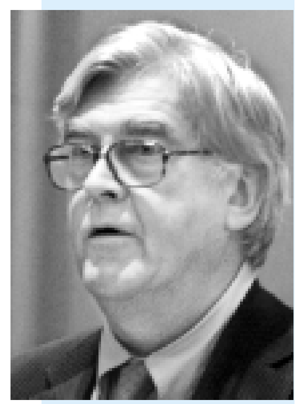
Strengthening the rule of law

Ministers consider that corruption in both developed and developing countries continues to hinder efficient mobilization and allocation of resources and to increase the cost of doing business. They call on all countries to redouble their efforts to strengthen the rule of law and to fight corruption to improve the investment climate and achieve higher and sustainable growth. The ongoing fight against money laundering and terrorism financing should be extended to help track the proceeds of corruption and ensure their quick return to the affected countries.

Next meeting

The next meeting of the Group of 24 Ministers is scheduled to take place on April 15, 2005, in Washington, D.C. ■

Sultan Bin Nasser Al-Suwaidi, Governor of the Central Bank of the United Arab Emirates.



Ian Plenderleith, Deputy Governor of South Africa's Reserve Bank.

Available on the web (www.imf.org)

Press Releases

04/196: IMF Executive Board Extends Argentina's Repayment Expectations, September 17

04/197: IMF Completes First Review Under Gabon's Stand-By Arrangement and Approves $20 Million Disbursement, September 20

04/198: IMF Executive Board Reviews Progress Report on Cambodia's Poverty Reduction Strategy Paper, September 22

04/199: IMF Staff Statement on Visit to Dominica, September 22

04/200: IMF Completes First Review of Romania's 24-Month Stand-By Arrangement, September 23

04/201: IMF Completes Eighth Review of Brazil's Stand-By Arrangement, September 23

04/202: IMF Staff Statement on Djibouti, September 24

04/203: IMF Completes First Program Review and Financing Assurances Review Under Honduras' PRGF Arrangement, September 24

04/204: Statement by an IMF Staff Mission in Kenya, September 27

04/205: IMF Completes Fourth Review Under Bolivia's Stand-By Arrangement, September 27

04/206: IMF Executive Board Approves $436.3 Million in Emergency Post-Conflict Assistance to Iraq, September 29

04/207: IMF Mission Statement on Discussions in Serbia and Montenegro, September 30

04/208: IMF to Close Zimbabwe Resident Representative's Office, October 1

04/209: Statement by an IMF Staff Mission in Peru, October 1

04/210: Communiqué of the IMFC, October 02

Public Information Notices

04/102: IMF Concludes 2004 Article IV Consultation with Fiji, September 14

04/103: IMF Concludes 2004 Article IV Consultation with Paraguay, September 16

04/104: IMF Concludes 2004 Article IV Consultation with Zimbabwe, September 17

04/105: IMF Concludes 2004 Article IV Consultation with the Kingdom of the Netherlands—Netherlands, September 17

04/106: IMF Concludes 2004 Article IV Consultation with the Republic of Kazakhstan, September 20

04/107: IMF Concludes 2004 Article IV Consultation with Brunei Darussalam, September 23

04/108: IMF Concludes 2004 Article IV Consultation with Cambodia, September 27

04/109: IMF Concludes 2004 Article IV Consultation with the Islamic Republic of Iran, September 27

Speeches

"The IMF at 60: Evolving Role, Current Challenges," Rodrigo de Rato, IMF Managing Director, Council on Foreign Relations, New York, September 20

Remarks by Rodrigo de Rato, IMF Managing Director, at the Summit of World Leaders for Action Against Hunger and Poverty, New York, September 20

Remarks by Rodrigo de Rato, IMF Managing Director, on "The IMF's Evolution and the Challenges Ahead," at 20th Anniversary Annual Meeting of the Bretton Woods Committee, Washington, D.C., September 30

Address and Concluding Remarks by Rodrigo de Rato, IMF Managing Director, to the Board of Governors of the IMF, Washington, D.C., October 3

Opening Remarks by Anne O. Krueger, IMF First Deputy Managing Director, at the Lunch for African Governors of the IMF, October 4

Opening Remarks by Agustín Carstens, IMF Deputy Managing Director, at the IMF Book Forum on Fiscal Policy Rules in Emerging Markets, Washington, D.C., October 6

Transcripts

Press Conference on the *Global Financial Stability Report*, Gerd Häusler, Counsellor and Director, and Hung Tran, Deputy Director, IMF International Capital Markets Department, September 15

Press Conference Call on the *World Economic Outlook*, Chapters II and III, by Raghuram Rajan, Economic Counsellor and Director, and others, IMF Research Department, September 22

Press Briefing by Thomas C. Dawson, Director, IMF External Relations Department, September 23

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Press Conference by IMF Managing Director Rodrigo de Rato with First Deputy Managing Director Anne Krueger, September 30

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Press Briefing on Sub-Saharan Africa Regional Economic Outlook, October 1

Press Conference on Latin America, by Anoop Singh, Director, IMF Western Hemisphere Department, October 1

Group of 24 Press Conference, October 1

Press Conference by Gordon Brown, U.K. Chancellor of the Exchequer and Chair of the IMF's IMFC, and Rodrigo de Rato, IMF Managing Director, October 2

Closing Press Conference of the 2004 Annual Meetings, with Hng Kiang LIM, Chair of the Boards of Governors and Minister of Trade and Industry, Singapore; Rodrigo de Rato; and James Wolfensohn, October 3

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International Monetary and Financial Committee, October 2

Development Committee, October 2

Group of 10, October 3

PRGF = Poverty Reduction and Growth Facility

World Economic Outlook

Fastest growth in decades in 2004, but in 2005 oil prices will weigh

The IMF forecasts global growth of 5 percent for 2004—the fastest in decades (see table) announced Raghuram Rajan, Economic Counsellor and Director of the IMF's Research Department, at a September 29 press conference. Higher oil prices are likely to dampen growth next year, however. The newly released September 2004 *World Economic Outlook (WEO)* lowers its forecast for 2005 growth slightly, to 4.3 percent, with further reductions possible if volatility continues in oil markets.

The United States, which led the way out of the global recession, recently hit a "soft patch," said Rajan. Fading fiscal stimulus and higher oil prices are weighing on consumption, so continued employment growth is essential. The measured withdrawal of monetary accommodation should continue. But on the fiscal side, despite recent revenue buoyancy, the IMF sees red ink stretching into the future.

As for Japan, the IMF recently raised its growth forecast despite recent softness in that economy, Rajan announced. But it is not enough for Japan to simply emerge from its stagnation of more than a decade. The rapid aging of its population has raised the bar, and Japan now has to recover some of its past vitality, by subjecting its domestic and financial sectors to the same competitive forces that have made its export sector thrive.

Rajan: The world needs to take the oil situation as a wake-up call.

The recovery in the euro area has gained momentum, Rajan observed, though growth there is still the lowest among developed regions and, especially in Germany, remains dependent on external demand. European leaders have enacted key reforms, but there are signs that people are experiencing reform fatigue.

Global growth at 5 percent in 2004
(annual percent change)

	2003	Current projections 2004	Current projections 2005
World output	**3.9**	**5.0**	**4.3**
Advanced economies	2.1	3.6	2.9
United States	3.0	4.3	3.5
Euro area	0.5	2.2	2.2
Japan	2.5	4.4	2.3
Newly industrialized Asian economies	3.0	5.5	4.0
Developing countries	6.1	6.6	5.9
Africa	4.3	4.5	5.4
Central and eastern Europe	4.5	5.5	4.8
Commonwealth of Independent States[1]	7.8	8.0	6.6
Developing Asia	7.7	7.6	6.9
Middle East	6.0	5.1	4.8
Western Hemisphere	1.8	4.6	3.6

[1]Mongolia, which is not a member of the Commonwealth of Independent States, is included in this group for reasons of geography and similarities in economic structure.

Data: *IMF World Economic Outlook*, September 2004

Will China land?

Growth has been particularly strong in emerging Asia, Rajan noted, with China picking up speed again. "The question increasingly is not a hard or soft landing," he said, "but whether China will land at all. In its own long-term interests, we strongly believe it must land." India's growth will soften a bit because of the vagaries of the monsoon, and the country has to improve its infrastructure even while bringing overstretched government budgets back into balance.

Elsewhere, Latin American growth has rebounded, with Brazil's reforms finally paying dividends, according to Rajan. Domestic demand has picked up across the region on the strength of improving confidence. But Latin America's problem has never been achieving growth; it has been sustaining growth. Reform efforts have to continue so that adverse debt dynamics do not play the spoiler as they have done so often in the past.

Higher oil prices are benefiting the Middle East as well as countries in the Commonwealth of Independent States. The critical task for all these countries, Rajan noted, will be to use their budgetary windfalls wisely, while diversifying sources of growth. Emerging Europe continues to thrive, with most economies experiencing rising domestic demand and strong export growth. But many of these countries have high fiscal and current account deficits that need attention, especially given rising oil prices.

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Particularly encouraging, said Rajan, is the stronger growth expected in sub-Saharan Africa. This is a result of improving macroeconomic fundamentals; higher commodity prices, including oil windfalls; somewhat better access to industrial country markets; and reduced external debt burdens. He cautioned, however, that sub-Saharan African countries must build on these gains by creating the institutions they need for continued growth.

Risks ahead

Turning to risks in the global economy, Rajan noted that long-term trends eventually, and often unexpectedly, become short-term policy concerns. For instance, the phenomenal growth of China could have run a few more years without weighing on global energy resources. But because it accompanied the global recovery and has now combined with the loss of oil production in various quarters and the targeting of oil supply by terrorists, oil prices have risen sharply.

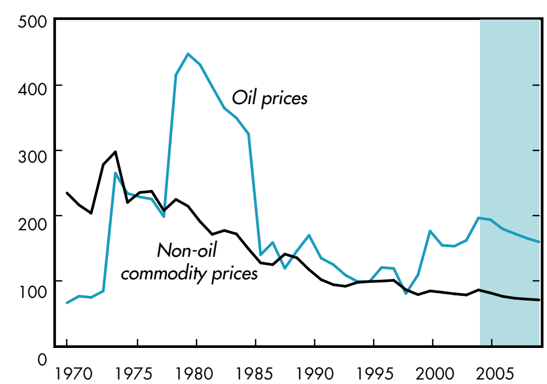
Just how much of the current pressure on oil prices results from increasing demand in strong emerging economies in 2004? Quite a bit. According to Rajan, China accounted for 30 percent of the increased demand and India approximately 8–10 percent. In response to a reporter's question about the price level at which one should start worrying, he explained that the IMF's rule of thumb is linear—a $5 annual increase in oil prices results in a 0.3 percent dip in global growth. Whether the effect would at some point become nonlinear was difficult to say.

But Rajan also strove to put the recent increase in a historical perspective. Current oil prices in real terms (see chart), he said, are still far below what they were in the 1970s, adding that oil reliance in the developed economies is now much less than it was in the 1970s. The inflation-fighting credibility of central banks is also much higher now than it was—an important ingredient in the overall picture, since one of the most important ways in which oil prices affect growth is by leading to an inflationary spiral that then has to be counteracted by very tight monetary policy, which then creates a downturn. Given all of the features of the current environment, Rajan concluded that "we are in a much better situation now than we were in the 1970s."

While Rajan declined to be an alarmist, he said the world needs to take the oil situation as a wake-up call. In the long run, without dramatic technological change, it will simply be unsustainable for every Chinese or Indian household to consume as much energy as inefficiently as the average U.S. suburban household. All countries have to increase incentives for both conservation and energy efficiency, while removing unnecessary impediments to exploration and production.

In the short run, WEO models indicate that the direct effects on growth and inflation of oil prices at current levels are likely to be moderate for developed countries, Rajan said. But monetary authorities have to be vigilant. If central bankers are forced to raise interest rates in a hurry, overstretched housing markets in some developed countries could be affected, while some emerging markets with significant public and external debt could face difficulty.

In real terms, oil prices are still comparatively low
(1995 = 100)



Note: Shaded areas indicate projections.
Data: *World Economic Outlook*, September 2004

Finally, Rajan reminded reporters that while downside risks have increased, global growth is still robustly above trend. Countries should use the relatively benign environment the world is now enjoying to recreate the room for policy maneuver that was given up in ensuring the recovery.

And there is no better time for reform than the present, when recent adversity reminds citizens of the cost of standing still while better times help ease the pain of reform. Domestic reforms in many cases can also contribute to reducing global imbalances. However, people will need to be convinced that the benefits of reform are worth the costs. That will require real leadership, which Rajan hoped would continue to emerge in the years to come. ■

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Copies of the September 2004 *World Economic Outlook* are available for $49.00 each ($46.00 academic price) from IMF Publications Services. The full text of the latest issue of the *World Economic Outlook* is available on the IMF's website (*www.imf.org*).