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WORLD BANK GROUP

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
INTERNATIONAL FINANCE CORPORATION
INTERNATIONAL DEVELOPMENT ASSOCIATION
INTERNATIONAL CENTRE FOR SETTLEMENT OF INVESTMENT DISPUTES
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Report to the Board of Governors of the
International Monetary Fund by the Chairman
of the International Monetary and Financial Committee
of the Board of Governors,
the Hon. **GORDON BROWN**,
at the Joint Annual Discussion

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I am honoured here in the historic city of Prague to make this, the first report of the International Monetary and Financial Committee to the Annual Meeting which on Sunday welcomed Horst Kohler our new Managing Director, endorsed his vision of reform for the IMF, welcomed the strengthened partnership between the IMF and World Bank, devoted a special session led by Pavel Mertlik to the strength of transition economies and resolved to send a message outwards that the way forward for the global economy is not a retreat from global economic cooperation but to reform and modernise our institutions for global economic cooperation.

This time last year we were set a challenge - to strengthen the IMF's ability to address global challenges and risks through a new, permanent, accountable and transparent forum. In responding over the last year, the Committee, as our decisions on Sunday demonstrate, has established itself as a crucial element of the international financial system.

To play a new role in establishing surveillance as an instrument for stability and growth, to address the immediate vulnerabilities and risks that threaten growth, and to drive forward the long term agenda for reform to ensure that all countries are able to participate fully in the world economy and share in the benefits of rising global prosperity.

World economic outlook

Let me report the detailed decisions of the Committee.

While growth has strengthened to the highest rate in twelve years, we must not be complacent. We must be vigilant not least about three major concerns:

First, risks from external imbalances, misalignments in exchange rates and the high levels of equity valuations in the major currency areas.

Second, the continued need for financial sector reform and attention to potential vulnerabilities, not least in emerging markets and developing countries.

Third: nowhere today is there a greater need to look beyond purely national interests to a shared global interest than in the risks that arise from current oil prices. At our meeting on Sunday- oil producers as well as oil consumers, rich countries as well as poor found common ground on a global public interest greater than any individual interest. Agreement on the need for action to secure: first, long term stability in oil markets; second reasonable oil prices; third improved dialogue between producers and consumers; and fourth joint action by producers and consumers to achieve greater stability.

In this respect the committee noted the recent US decision to mobilise its oil reserves and noted that some other industrialised countries might consider action along similar lines. The Committee welcomed the steps the oil producing countries had taken this year to increase production and called on them to take further steps.

We look forward to the conclusions that will come from the OPEC meeting in Caracas this week.

The future role of the IMF

Reaffirming our commitment to the IMF's role in making globalisation work for the benefit of all, we reached agreement on four key areas of reform.

Surveillance

Fund surveillance - critical to crisis prevention - to be strengthened not least for financial sectors. The next step is that the Fund establish new models of cooperation within the framework of the Article IV process. And because codes and standards are a key element of this, we were encouraged that so many countries have participated in ROSC and FSAP and encouraged the Fund to continue this work.

And because the Fund has a key role in protecting the systems integrity, we agreed to step up efforts to combat financial abuse.

Facilities

We welcomed the review of the Fund's facilities and the changes agreed to reflect members' changing needs in a world of integrated capital markets. For those pursuing sound policies, the Fund's Contingent Credit Line (CCL) has been made more effective: terms of stand-by arrangements and the EFF amended to encourage countries to avoid undue reliance on Fund resources. And we have removed those facilities which have become obsolete in today's global economy.

Private sector involvement

Because there is growing agreement that in crisis prevention and crisis resolution the private sector must now also accept greater responsibilities, the Committee endorsed Horst Kohler's report on private sector involvement in crisis prevention, and welcomed the development of a framework setting out its role in the resolution of crises. We were agreed that the framework must provide the clarity needed to guide market expectations but also the flexibility to allow the most effective response in each case. And the Committee urged progress in refining and applying the framework.

Good governance and the Fund

We need surveillance of the Fund as well as surveillance by the fund. Having this spring pledged to work towards making the IMF more transparent the Committee strongly welcomed the Fund's decision to establish an Independent Evaluation Unit covering the Fund's work which will be up and running by the next Spring meetings.

Debt relief and poverty reduction

Because the test of globalisation will be that it works to benefit the poorest, the world needs a virtuous circle of debt relief, poverty reduction and economic development - most immediately progress in the HIPC and PRSP initiatives so that with debt relief comes poverty reduction. Ten countries have reached their HIPC decision point and are receiving relief. At a special joint meeting of the IMFC and the Development Committee, we welcomed the personal commitment of Horst Kohler and Jim Wolfensohn and the new steps taken to accelerate progress - the role of the Joint Implementation Committee, flexibility in assessing track records while maintaining the conditionality necessary to achieve poverty reduction, simplification of the interim PRSPs - and we welcomed the commitment of the Fund and Bank to do everything possible to bring 20 countries to their decision point by the end of 2000.

We also welcomed the Bank's proposal to develop a Poverty Reduction Support Credit and the key changes to the Fund's PRGF ensuring appropriate flexibility in fiscal targets, more selective conditionality and making budgets both more pro-poor and pro-growth.

Our next challenge is that of too many countries unable to make the commitment that debt relief will bring poverty reduction because of conflict -both internal and external. Conflict prevention and help for post conflict countries will be a subject of joint Fund and Bank work and examination at the Spring meetings next year.

Conclusion

So we need to be vigilant on risks to world growth, resolute in recognising our mutual interests in stability, forward looking in our determination to modernise and reform, driving forward our mandate to reduce poverty.

We are here as 182 countries who have come together in Prague demonstrating not just by words but through our actions that the world's richest countries who have most recognise their obligations to the world's poorest countries who have least and that ever increasing cooperation between each of us should achieve ever increasing prosperity for all of us.