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Ottawa meetings

Ministers agree to tackle economic slowdown, money laundering and terrorist financing

UN Secretary-General Kofi Annan (right center) joined (from left) World Bank President James Wolfensohn, IMF Managing Director Horst Köhler, Group of 20 Chair Paul Martin, IMFC Chair Gordon Brown, and Development Committee Chair Yashwant Singh for a dinner discussion in Ottawa.

The world's top financial leaders agreed that the international community must stand ready to take further timely action to combat the global economic slowdown, and called on all countries to move aggressively to stamp out money laundering and terrorist financing, when they met in Ottawa on November 17 for the biannual meeting of the International Monetary and Financial Committee (IMFC). The meeting—originally scheduled for late September at IMF headquarters but postponed in the wake of the September 11 terrorist attacks—was a reaffirmation of the need for the global community to work together to address the challenges facing the world economy.

(Please turn to the following page)

Rogoff reflects on global economy, research, academia, and chess

In August, Kenneth Rogoff took over as Economic Counsellor and Director of the IMF's Research Department. He joins the IMF staff after a distinguished career as a researcher and academic, most recently as Professor of Economics at Harvard University. Rogoff worked at the IMF as an economist in the early 1980s, on leave from the U.S. Federal Reserve System, Washington, and as a consultant in the late 1990s. He is also known for his impressive chess career, attaining the life title of International Grandmaster before retiring from competition at age 25.

IMF Economic Counsellor and Research Department Director Kenneth Rogoff

IMF SURVEY: World financial leaders recently met in Ottawa to debate ways to revive the global economy. What is the IMF counseling the major powers to do?

ROGOFF: What is important is that the slowdown is simultaneously taking place in all the major industrial economies of the world—in Europe, Japan, and the United States—and this is placing a great strain on other economies. If growth were slowing only in the United States, other countries could export to Europe and Japan. But this is not what is happening. Thus, it is

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(Continued from front page) IMF Managing Director Horst Köhler—speaking at a joint press conference with IMFC Chair Gordon Brown, the U.K. Chancellor of the Exchequer—termed the outcome of the meeting "a milestone to build up confidence and make clear that the international community is united in its fight against money laundering and the financing of terrorism." Brown said "there is a new determination and political will to make the changes that are necessary to make the international economy work better, particularly in the interest of those people who are presently excluded" (see IMFC press briefing, page 365).

Economic slowdown deepens
(annual percent change unless otherwise noted)

			Current projections	
	1999	2000	2001	2002
World output	3.6	4.7	2.4	2.4
Advanced economies	3.4	3.8	1.0	0.8
United States	4.1	4.1	1.1	0.7
Japan	0.8	1.5	–0.9	–1.3
European Union	2.6	3.4	1.7	1.4
Newly industrialized Asian economies	7.9	8.2	0.3	1.7
Developing countries	4.0	5.8	4.0	4.4
Africa	2.5	2.8	3.5	3.6
Asia	6.1	6.8	5.6	5.6
Western Hemisphere	0.1	4.1	1.1	1.7
Middle East, Malta, and Turkey	2.0	5.9	1.7	4.0
World trade volume (goods and services)	5.4	12.4	1.3	2.6
Commodity prices (U.S. dollars)				
Oil[1]	37.5	56.9	–11.4	–16.0
Nonfuel[2]	–7.0	1.8	–5.1	1.7
Consumer prices				
Advanced economies	1.4	2.3	2.4	1.4
Developing countries	6.8	5.9	6.0	5.2
Countries in transition	43.9	20.1	16.5	11.0
LIBOR (percent)[3]				
On U.S. dollar deposits	5.5	6.6	3.8	2.8

Note: Real effective exchange rates are assumed to remain constant at the levels prevailing during September 17–October 16, 2001.
[1]Simple average of spot prices of U.K. Brent, Dubai, and West Texas Intermediate crude oil. The average price of oil in U.S. dollars a barrel was $28.21 in 2000; the assumed price is $25.00 in 2001 and $21.00 in 2002.
[2]Average based on world commodity export weights.
[3]Six-month London interbank offered rate.
Data: IMF data

Combating the slowdown

For the financial leaders, the need to revive flagging growth topped the agenda. A joint statement by Köhler and World Bank President James Wolfensohn on supporting low-income countries noted that in the aftermath of the terrorist attacks, "economic policy throughout the world will need to be framed in an environment of unusually large uncertainty. Short-term economic forecasts have been revised downward for virtually all major economies; capital markets have tightened considerably, with a flight to quality across many investor categories; and slower world growth prospects have been translated into lower demand for developing country exports and lower prices for many primary commodities" (see joint statement, page 360). In recent weeks, the IMF has cut its global growth forecast to 2.4 percent for this year and next, just half of the growth registered last year (see table).

Even so, Köhler and Wolfensohn held out the expectation of a recovery during 2002. "Fortunately, economic fundamentals in many countries were on a reasonably sure footing, and policy responses have already taken place or are under way to deal with the economic downturn and the September 11 aftermath."

In its communiqué, the IMFC emphasized the key responsibility of the advanced economies to promote early recovery in global growth. The communiqué also welcomed the decision at the World Trade Organization ministerial meeting in Doha, Qatar, to launch a new trade round that will give special weight to the needs of developing countries, as "increased trade opportunities will play a vital role in the recovery" (see IMFC communiqué, page 363).

The IMFC expressed particular concern about the impact on the poorest countries of the global slowdown. "There is likely to be an adverse, but manageable, impact on most low-income countries' external financing needs, although this will vary widely among individual countries," Köhler and Wolfensohn said. They urged the low-income countries themselves to pursue sound macroeconomic policies and poverty reduction strategies, and they urged advanced economies to be proactive in providing support. The IMF and the World Bank stand ready to help, but "our actions must be part of an approach of stronger support from the entire international community to do more, through trade liberalization, increased official development assistance, full participation in providing debt relief, and better alignment of donor development assistance with country-owned poverty reduction strategies."

They projected that the demand for resources for the Poverty Reduction and Growth Facility—the IMF's concessional loan facility—could be as much as $1.5–2.0 billion next year. "While this is high by historical standards, it should be manageable with existing resources, if limited to one year," they said. They also pledged that their institutions would "analyze the impact of recent events" on the heavily indebted poor countries (HIPC) to see if more debt relief would be needed under the HIPC Initiative.

On November 18, the Development Committee, chaired by Indian Finance Minister Yashwant Sinha, said that a "substantial increase" in current levels of official aid will be required "if the opportunities emerging from policy improvements in low-income countries are to be realized" and the Millennium Development Goals are to be met (see Development Committee communiqué, page 368).

He told a press conference after the meeting that "it is a different world after the eleventh of September. It is a more integrated world. There is greater awareness that we must be able to stand together, developed as well as developing countries, because alienation, poverty, deprivation, violence, anger, impatience anywhere is a threat to peace, prosperity, and all that we hold and cherish everywhere in the world."

Wolfensohn said that "the notion of two worlds of rich and poor or developed and developing collapsed at the time of the World Trade Center." He added that "there is a growing awareness in the streets that the purpose of foreign development assistance is not just charity. It is self-interest. As we enter a world that is becoming more integrated, and where all the growth is going to come in the developing countries, we better have a better balance in the world."

No more safe havens

The second key agenda item—combating money laundering and halting the flow of terrorist financing—saw ministers move aggressively in the wake of the September terrorist attacks. The IMFC called on all member countries to ratify and implement fully the United Nations instruments to counter terrorism and supported the recommendations of the Financial Action Task Force (FATF) to combat terrorist financing. It said "each member should freeze, within its jurisdiction, the assets of terrorists and their associates; close their access to the international financial system; and, consistent with its laws, make public the list of terrorists whose assets are subject to freezing and the amount of assets frozen, if any, with monthly reports."

The IMFC also endorsed the IMF's action plan to "intensify, where consistent with its mandate and expertise," its contribution by

• extending the IMF's involvement beyond anti–money laundering to efforts aimed at countering terrorism financing;

• expanding its anti-money-laundering work to legal and institutional frameworks;

• accelerating its program of Offshore Financial Center assessments and undertaking onshore assessments in the context of the Financial Sector Assessment Program;

• helping countries identify gaps in their anti-money-laundering and anti-terrorist financing regimes;

• enhancing its collaboration with the FATF on developing a global standard and working to apply the standard on a uniform, cooperative, and voluntary basis; and

• increasing technical assistance to enable members to implement effectively the agreed international standards.

These steps build on the IMF's recent review of how it could best join the international effort to halt money laundering and terrorist financing (see box).

The IMFC also called for

• all countries to establish financial intelligence units to receive and process reports of suspicious transactions from the country's financial sector and to monitor and analyze suspected terrorist funds;

• provisions to ensure the sharing of information and cooperation between national financial intelligence units; and

• the deployment of technical assistance to ensure that every country can play its part, either based on bilateral support or through funds held in an international trust.

Ministers urged countries to take these measures as soon as possible, preferably by February 1, 2002, and they asked the IMF to give a progress report at its April 2002 meeting, with a full report at its 2002 Annual Meeting.

The Group of 20—which includes the major industrial countries and a number of other countries—also met in Ottawa that weekend and issued its own action plan to "deny terrorists and their associates access to our financial systems." This was being done "in the name of global peace and security," its communiqué said, calling on other countries to take similar steps (see Group of 20 communiqué, page 375). ■

Laura Wallace
Editor, *IMF Survey*

Money laundering and terrorist financing

On November 12, the IMF's Executive Board explored ways to intensify efforts to combat money laundering and the financing of terrorism. Directors stressed that the IMF has a key role to play as part of international efforts "to prevent the abuse of financial systems and to protect and enhance the integrity of the international financial system." They said the IMF's primary efforts should be in assessing compliance with financial supervisory principles and providing corresponding technical assistance. They also confirmed that it would be inappropriate for the IMF to become involved in law enforcement issues.

Directors further agreed that a key element in this battle would be more effective information sharing and cooperation among national authorities and international agencies. They called upon governments "to create mechanisms to enable collection and sharing, including cross-border sharing of relevant financial information with appropriate supervisory and law enforcement activities." Directors stressed that primary responsibility, however, would continue to rest with national authorities.

The full text of IMF Public Information Notice No. 01/120 is available on the IMF's website (www.imf.org).

"Each member should freeze, within its jurisdiction, the assets of terrorists and their associates; close their access to the international financial system...."
—IMFC communiqué

Köhler-Wolfensohn statement

Bank–IMF aid to poorest countries must be complemented by broader international response

Following is the joint statement by IMF Managing Director Horst Köhler and World Bank President James Wolfensohn to the International Monetary and Financial Committee and Development Committee meetings on supporting low-income countries in light of changes in the world economic situation.

Köhler and Wolfensohn: "We anticipate that demand for PRGF resources for next year could be as much as $1.5–2.0 billion. While this is high by historical standards, it should be manageable with existing resources, if limited to one year."

Reducing global poverty remains one of the foremost challenges of our time. Safeguarding progress in light of the recent deterioration in the global economic situation will require a renewed and strengthened commitment by low-income countries as well as by the international community as a whole. Over the past eight weeks, the IMF and the World Bank have been working with low-income member countries eligible for the Poverty Reduction and Growth Facility (PRGF) and the International Development Association (IDA) and with other development partners to assess the country-by-country economic and financial impact of recent events and the responses that will be necessary to maintain the momentum of the fight against poverty.

Preliminary analysis and consultation indicate that, in aggregate, there is likely to be an adverse, but manageable, impact on most low-income countries' external financing needs, although this will vary widely among individual countries. The shortfall will need to be addressed by a two-pillar approach. The countries themselves will need to follow sound macroeconomic policies and poverty-reduction strategies and, in many cases, undertake further policy adjustment. In the second pillar, the international community will need to be proactive about providing support to these countries' efforts.

The following statement outlines the early plans for assistance from the IMF and the World Bank. Our actions must be part of an approach of stronger support from the entire international community to do more, through trade liberalization, increased official development assistance, full participation in providing debt relief, and better alignment of donor development assistance with country-owned poverty reduction strategies.

Economic outlook more uncertain

In the aftermath of the September 11 terrorist attacks, economic policy throughout the world will need to be framed in an environment of unusually large uncertainty. Short-term economic forecasts have been revised downward for virtually all major economies; capital markets have tightened considerably, with a flight to quality across many investor categories; and slower world growth prospects have been translated into lower demand for developing country exports and lower prices for many primary commodities.

Fortunately, economic fundamentals in many countries were on a reasonably sure footing, and policy responses have already taken place or are under way to deal with the economic downturn and the September 11 aftermath. As a result, we continue to expect that there will be a recovery during the coming year. However, there is also the possibility of a worse outcome, involving even lower growth and increasing financing difficulties for many countries.

The worsened international economic situation has affected low-income countries through a number of channels. For developing countries, trade is the single most important channel affecting growth. Lower demand for their exports, which account for 30 percent of GDP on average for these countries, comes at a time when prospects for net export earnings were already deteriorating due to a downward trend in agricultural commodity prices, some of which continue to be distorted through production and export subsidies, notably those of industrial countries. In particular, prices of cotton, coffee, and copper, three commodities on which many low-income countries are dependent, are lower than they have been for many years, and even lower commodity prices may be in store.

For oil-importing countries, the current downward trend in oil prices will serve to offset part of the impact of lower commodity prices on export earnings. As a result, while the outlook for individual countries varies widely, real GDP growth is projected to continue for the group as a whole, albeit at somewhat lower levels.

However, there are substantial uncertainties in the growth forecast for the poorest countries, especially with regard to the future direction of prices of agricultural commodities and oil. These countries were in a precarious situation to begin with, and their external financing positions are being hit disproportionately hard—even with continued growth—given factors such as further declines in tourism receipts and in workers' remittances from abroad. For both oil-importing and oil-exporting countries, the first line of defense in cushioning against the adverse impact of slower growth on external financing is maintaining sound macroeconomic policies and adhering to existing adjustment programs. Where policies are sound, additional external financing on appropriate terms will also be a key component of the response to the deterioration of their external accounts.

IMF and World Bank support

The IMF and World Bank staffs will continue to work with country authorities to monitor the situation. The staffs of both institutions have already been in contact with most low-income country authorities to assess the new situation and the countries' planned response, with a view to the role that the IMF and the World Bank might play. Both institutions will continue to ascertain changing needs on an ongoing basis—the IMF through upcoming program reviews, Article IV consultations, and other assessment activities; the Bank through its ongoing dialogue on the preparation and implementation of operations and Country Assistance Strategies (and Progress Reports).

Increased technical assistance and analytic work will be important components of the response of both institutions to update diagnostics, strengthen countries' capacity to respond effectively to changing needs, and underpin Bank and IMF financial assistance. In many countries, technical assistance and analytic work will likely focus on areas such as trade policy, fiscal and public expenditure management, financial management and procurement reform, financial sector reform, and the design and implementation of social safety nets, including the targeting of pro-poor spending.

The IMF is currently providing concessional resources under the PRGF to support 39 low-income member countries and will review and augment these resources as appropriate. In other low-income countries with sound policy frameworks and demonstrated financial needs, IMF staff are working with authorities to set up new PRGF-supported programs. For members not ready to undertake a three-year structural reform program but where stabilization policies can be agreed, Stand-By arrangements may be considered. For some developing countries, the IMF's Compensatory Financing Facility (CFF) can provide assistance in the case of temporary export shortfalls. The IMF has reviewed its existing financial instruments and modalities; these continue to appear adequate to respond to the current needs of the membership. The IMF will be ready to consider adjusting them, if necessary, in the light of future developments. For example, if there were an unanticipated increase in oil prices, one step that could be considered is to introduce a temporary oil element within the CFF to allow compensation for higher import costs through this facility (as was done during the Gulf War crisis).

With the new projections, we anticipate that demand for PRGF resources for next year could be as much as \$1.5–2.0 billion. While this is high by historical standards, it should be manageable with existing resources, if limited to one year. The minimum resources necessary for a continuation of PRGF lending have now been secured with the contributions of nine lenders to the PRGF Trust totaling SDR 4.1 billion, and we urge others to follow their lead. For low-income postconflict countries, the IMF has established a special subsidy account to lower the interest cost of emergency assistance to 0.5 percent on an annual basis. An initial contribution has been received, and the IMF is seeking further donations to this account.

The Bank Group's existing instruments and policies make available a wide variety of options to provide new financial assistance to low-income countries affected by the economic downturn and the September 11 events and their aftermath—including both new lending and disbursements under existing loans. IDA, the International Finance Corporation (IFC), and the Multilateral Investment Guarantee Agency (MIGA) will use these options to respond flexibly in helping countries meet their financial needs and supporting sound poverty reduction strategies and social programs.

For IDA, new or supplemental adjustment lending may be an option for affected countries with sound macroeconomic policies and reform programs. The Bank may also, within existing policies, advance the preparation or increase the scope of selected new investment projects, such as social funds, or provide supplemental investment operations where the impact of the crisis has led to project cost overruns. Emergency recovery operations may be provided in countries where the September 11 events have led to serious short-term economic dislocations such as those caused by a sharp increase in the number of refugees.

The Bank also has the flexibility, within existing policies, to work with borrowers to restructure the existing portfolios—for example, by reallocating loan proceeds to channel resources to activities that most effectively mitigate the social impact of the crisis—or to increase or accelerate disbursements under existing operations, as appropriate. IFC and MIGA will be utilizing the flexibility within existing instruments in tailoring their responses—with a focus on helping sustain private investment flows to affected countries.

Projected IDA lending for financial year (FY) 2002 is up to \$7.8 billion, compared with up to \$7 billion before the September 11 events. Beyond the current fiscal year, the initial estimate of lending during the IDA-13 period (FY2003–05) was \$23 billion (SDR 18 billion). Estimates completed after the September 11 events suggest that the crisis and ongoing economic downturn, especially if prolonged, could result in significant incremental needs during IDA-13, particularly for countries in Africa and Asia. Looking ahead to the next meeting of IDA Deputies on December 6–7, a timely and expeditious agreement on a substantial IDA-13 replenishment will be key to meeting

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—Köhler and Wolfensohn

the needs of low-income countries, especially those that are now facing even greater challenges.

Heavily indebted poor countries (HIPCs)

The heavily indebted poor countries are an important subgroup of low-income countries. While the growth impact in these countries will not differ from that of the group as a whole, their financing positions have the added dimension of a high debt burden. The primary purpose of the HIPC Initiative is to bring the debt burdens of these countries to sustainable levels, and this should remain the guiding principle for its role during the current downturn.

The Initiative, as currently structured, provides significant flexibility in responding to any adverse impact on HIPCs, in both the immediate and the longer terms. First, interim debt relief under the enhanced Initiative provides significant flow relief beginning immediately at the decision point. We encourage creditors who are not yet providing interim relief to do so. In recent years, both bilateral and multilateral creditors have increased interim relief to HIPCs in response to natural disasters, and some bilateral creditors are providing debt relief beyond the HIPC framework.

Second, HIPCs' maintenance of long-term debt sustainability will depend largely on sustained policy reform and strengthened debt management. The enhanced framework provides for the consideration of additional assistance at the completion point if there has been a fundamental change in a country's economic circumstances as a result of exceptional exogenous developments. The relevant operational procedures have recently been approved by both Boards.

To the extent that recent events represent a major exogenous shock, our staffs, together with country authorities, will analyze the impact of recent events on each country in detail in the debt sustainability analysis undertaken as HIPCs reach their completion points. Very preliminary assessments by staff of the impact of the projected economic downturn suggest that the need for additional debt relief under the enhanced HIPC framework may be modest and limited to a few cases. However, this analysis is inherently uncertain—debt sustainability projections require assumptions about the future size and composition of the export base, movements in the discount rate, and judgments about any new borrowing and its concessionality.

Broader international response necessary

The efforts of the Bank and the IMF must necessarily be part of a much broader international response. The regional development banks have been active partners in assessing the economic and financial impact and providing advice on appropriate responses. They also have significant parallel programs of support under way. Similarly, bilateral donors will need to fulfill and expand upon existing commitments for all regions. As the IMF and the World Bank continue their country-by-country reviews of financing impacts and responses, we urge bilateral donors to finalize, as soon as possible, plans for next year's assistance for individual countries, so the recipients have greater certainty in formulating their budgets for next year. Where appropriate, export credit agencies will need to remain engaged to ensure continued availability of trade finance.

A new trade round and maintaining momentum on trade liberalization in all countries will be important for increasing poor countries' access to world export markets and for spurring global growth with resulting benefits to the poorest countries. The IMF and the Bank participated in the World Trade Organization ministerial meeting that just concluded in Doha, and we are encouraged by the agreement that was reached to launch a new trade round that will give special weight to the needs and concerns of developing countries.

It will be important now to translate these words into concrete actions. The IMF and the World Bank are committed to helping our poorer members integrate more deeply into the global economy by strengthening their own policies, institutions, and capacities and by adopting development strategies that harness trade to accelerate growth and reduce poverty. We stand ready to assist our members in this process through financial support, technical assistance, and policy advice.

We are also committed to the success of the United Nations Financing for Development Conference in Mexico next March. The IMF and the World Bank have participated actively in the preparations for the conference, and we will continue to support the UN in ensuring that this conference results in creative ideas to improve the international community's involvement and effectiveness in support of appropriate domestic policies to promote sustained growth and reduce poverty. We also encourage donor countries to decisively increase official development assistance funding, to resume progress toward meeting the United Nations goal of 0.7 percent of donor country GNP.

Looking forward

Since the beginning of 2000, the country-driven poverty reduction strategy paper (PRSP) process has provided a framework for IMF–World Bank support to low-income members, both concessional assistance from IDA and under the PRGF, and the delivery of HIPC debt relief. It has also increasingly become the framework adopted by other development partners for their support. Experience to date with the PRSP approach augurs well for its contribution to improving both the poverty focus of national development programs and the effectiveness of donor support for these country-led efforts. HIPCs and other low-income countries must continue to move forward responsibly and expeditiously with designing and implementing their poverty reduction strategies, with a particular focus on how new resources can be most effectively directed to the needs of the poorest and most vulnerable.

The IMF and the Bank welcome comments and suggestions for further improving the design and implementation of PRSPs. All concerned are learning by doing, and it is particularly important that we refine and improve the process in light of early experience. In this regard, we are looking forward to the joint review of the PRSP approach, which we are undertaking over the coming months. We are committed to drawing on the views of the PRSP countries themselves and of international institutions, donors, and civil society organizations, with a view to benefiting from their diverse perspectives and experiences and making any needed modifications in the PRSP framework. In parallel, the IMF will also conduct a review of the initial experience under the PRGF. These reviews will be ready for consideration by the April 2002 meetings of the IMFC and the DC. ■

IMFC communiqué

IMFC urges vigilance, action, collaboration to invigorate growth

Following is the communiqué of the International Monetary and Financial Committee of the IMF issued on November 17, in Ottawa.

Recognizing the need for a determined and cooperative policy response to the challenges facing the world economy, the International Monetary and Financial Committee held its fourth meeting in Ottawa on November 17, under the chairmanship of Gordon Brown, Chancellor of the Exchequer of the United Kingdom. The Committee expresses its gratitude to Finance Minister Paul Martin and the Canadian government for hosting this meeting and for the excellent arrangements.

The Committee notes that the September 11 terrorist attacks have prolonged the slowdown in the world economy. Bold policy action has already been taken to support a robust recovery during 2002, but the outlook remains subject to considerable uncertainty. Continuing vigilance is needed, and it is essential that the international community stand ready to take timely action to maintain stability and invigorate growth. The Committee welcomes the Managing Director's October 5 statement [see *IMF Survey*, October 22, page 325] on the situation of the world economy and the IMF response, which outlines a collaborative approach to give a new momentum to the world economy. The IMF has a central role to play, including through a strengthened focus on surveillance, in ensuring global macroeconomic and financial stability and in ensuring that globalization works for the benefit of all.

The advanced economies have a key responsibility to promote early recovery in global growth. The recent easing of monetary policy in the United States, the euro area, and other advanced economies is welcome, and the authorities stand ready to take further action if appropriate. While the scope for discretionary fiscal policy action varies across countries, the advanced economies should allow automatic stabilizers to operate. The Committee stresses that determined implementation of structural reforms to take advantage of the promise of technology for increased productivity is important to restore confidence and growth. Japan, in particular, needs to move ahead with vigorous reforms of its banking and corporate sectors, and Europe should give priority to accelerating labor and product market reforms. The United States stands ready to take further action to support growth, consistent with maintaining sound public finances in the medium term.

Increased trade opportunities will play a vital role in the recovery, and the Committee strongly welcomes the outcome of the Doha meeting of the World Trade Organization and the Doha Development Agenda. All countries should stand firm against protectionist pressures, and the advanced economies, in particular, should improve access to their markets and reduce trade-distorting subsidies, both to benefit their own citizens and to provide critical support for developing countries. The IMF should strengthen its surveillance of these issues and help promote international efforts to open markets. The Committee is vigilant on stability in the oil market at prices reasonable for consumers and producers.

At a working lunch, IMFC Chair Gordon Brown (left) discusses the draft communiqué with finance ministers Yashwant Sinha of India (middle) and Paul Martin of Canada.

Emerging markets and developing countries are facing a weakening of global demand, reduced capital flows, higher risk aversion in financial markets, reduced income from tourism, and lower and more volatile commodity prices. Sound and proactive policies in these countries will be critical. The IMF stands ready to provide additional financial assistance, where needed, to those countries pursuing sound policies. The IMF has a range of instruments available, and its current financial position is strong. The IMF should be ready to adjust its policies if necessary. The Contingent Credit Line is an important signal of the strength of countries' policies and a safeguard against contagion in financial markets, and the Committee encourages eligible countries to consider applying for it. The Committee also underscores the critical importance of involving the private sector in the prevention and resolution of financial crises. The Committee recommends an early implementation of the Fourth Amendment.

The Committee expresses particular concern at the adverse impact of the global slowdown on low-income countries and heavily indebted poor countries (HIPCs). It calls on the IMF, in close collaboration with the World Bank, to respond flexibly and proactively to the needs of these countries, including through additional concessional financing and debt relief where appropriate. The Committee welcomes the additional contributions to the Poverty Reduction and Growth Facility (PRGF) and encourages further contributions. The IMF, working closely with the World Bank, should intensify its efforts within the poverty reduction strategy paper (PRSP) framework to assess the poverty and social impacts of reforms on the poor. The Committee looks forward to discussing the findings of the PRGF and the PRSP reviews at the spring meetings next year.

(Left to right): Armínio Fraga, Brazil's Central Bank President, confers with Guillermo Ortiz, Governor of Mexico's Central Bank, and U.S. Federal Reserve Chair Alan Greenspan.

The enhanced HIPC Initiative framework provides for the consideration of additional assistance at the completion point if there has been a fundamental change in a country's economic circumstances, because of exceptional exogenous shocks. The Committee recognizes the need to take into account worsening global growth prospects and declines in terms of trade when updating HIPC Initiative debt sustainability analyses at the completion point. It encourages the heavily indebted poor countries to continue to work expeditiously toward meeting the conditions that will secure access to debt relief and ensure its effective use, including through the maintenance of sound economic policies. Advanced economies must also be prepared to meet their special responsibility in providing increased development assistance and debt relief to tackle the increased challenges of poverty reduction, and to achieve the Millennium Development Goals. The Committee reiterates the importance of fully financing the enhanced HIPC Initiative, and it urges bilateral donors to fulfill this commitment.

Recognizing the importance of close collaboration and effective partnership among the community of international institutions in this endeavor, committee members look forward, with their colleagues in the Development Committee, to their joint discussion with UN Secretary-General Kofi Annan on how best to work together to meet the challenges ahead, including in the context of the upcoming Conference on Financing for Development.

The Committee expresses grave concern at the use of the international financial system to finance terrorist acts and to launder the proceeds of illegal activities. It therefore calls on all member countries to ratify and implement fully the UN instruments to counter terrorism, particularly UN Security Council Resolution 1373, and welcomes and supports the Special Recommendations of the Financial Action Task Force (FATF) to combat terrorist financing. Each member should freeze, within its jurisdiction, the assets of terrorists and their associates; close their access to the international financial system; and, consistent with its laws, make public the list of terrorists whose assets are subject to freezing and the amount of assets frozen, if any, with monthly reports. The fight against money laundering and the financing of terrorism requires the active participation of both financial intermediaries and the public sector.

The Committee endorses the IMF's action plan to intensify, where consistent with its mandate and expertise, its contribution to this global effort, namely by extending the IMF's involvement beyond anti–money laundering to efforts aimed at countering terrorism financing; expanding its anti-money-laundering work, including through Financial Sector Assessment Programs (FSAPs), to cover legal and institutional frameworks; accelerating its program of Offshore Financial Center assessments and undertaking onshore assessments in the context of the FSAP; helping countries identify gaps in their anti-money-laundering and antiterrorist financing regimes in the context of Article IV voluntary questionnaires; enhancing its collaboration with the FATF on developing a global standard covering the FATF recommendations and working to apply the standard on a uniform, cooperative, and voluntary basis; and increasing technical assistance to enable members to implement effectively the agreed international standards.

In addition, the Committee urges further international action to combat the financing of terrorism and calls for all countries to establish financial intelligence units to receive and process reports of suspicious transactions from the country's financial sector and to monitor and analyze suspected terrorist funds; provisions to ensure the sharing of information and cooperation between national financial intelligence units, building on the work of the Egmont Group; and the deployment of technical assistance to ensure that every country can play its part, based on support either bilaterally or through an international trust fund.

Countries are urged to take these measures as soon as possible, preferably by February 1, 2002. The IMF should report on progress at its spring 2002 meeting, with a full report at its Annual Meeting.

The Committee encourages the IMF to continue to strengthen its surveillance and crisis prevention, including through the implementation of standards and codes (and related technical assistance), and emphasizes that these remain key priorities. It calls on the IMF to implement the agreed framework for private sector involvement and to intensify the ongoing analysis of outstanding issues. It welcomes the progress on improving the effectiveness of conditionality through streamlining and enhancing the country ownership of IMF-supported programs and looks forward to reviewing progress in this area at its next meeting. Quotas should reflect developments in the international economy. The Committee looks forward to further work on this issue. The Committee looks forward to the Independent Evaluation Office finalizing its work program and to receiving a progress report on its activities at the next meeting.

The Committee expresses its heartfelt appreciation to Stanley Fischer [former First Deputy Managing Director of the IMF] and Jack Boorman [outgoing Director of the IMF's Policy Development and Review Department] for their eminent records of service to the IMF and deep commitment to the well-being of all its member countries. Both have been pivotal in shaping the role of the IMF in the globalized economy and the evolving international financial architecture. ■

IMFC press conference

Brown, Köhler stress need for global cooperation

Following are edited excerpts from the International Monetary and Financial Committee (IMFC) press conference by Gordon Brown, the United Kingdom's Chancellor of the Exchequer, and IMF Managing Director Horst Köhler, in Ottawa on November 17.

BROWN: Our meeting today has taken place at a testing and challenging time for the global economy. It would have been understandable at a time like this for each country to have turned inward and focused on its domestic concerns. But I believe today's meeting has reaffirmed the importance of global cooperation. Indeed, it has reflected the fact that the global slowdown requires and demands global cooperation. The alliance that we have formed against terrorism has been boosted today by the decisions of the IMFC to declare its support for the special recommendations on combating the financing of terrorism. We are calling on all countries to take action to ensure that financial institutions are able to report suspicious transactions, and we are calling on all countries to ratify and implement the United Nations (UN) instruments to counter financial terrorism.

For the first time ever, the IMF has committed itself to extending its bilateral surveillance to include members' efforts to counter the financing of terrorism. We have agreed that all 183 countries should consider establishing financial intelligence units to analyze potentially suspicious transactions. We have agreed on the need to share information and ensure cooperation between national financial intelligence units, and we have agreed that the IMF should provide targeted, expert assistance—in some cases financial assistance—to ensure that every country can play its part and has the resources to do so in the fight against terrorist financing. We have called on the UN to create a technical register of countries and their needs in relation to tackling terrorist financing. We said all these things should be moved forward by the first of February, and we would want to report at our April meetings.

Our global cooperation has extended also to the decisions we have reached on the global economy and the need to strengthen international cooperation and our international financial institutions. I want to draw your attention to the communiqué itself, to the statement that we have made about the world economy. We say that the outlook remains uncertain, and we say that continuing vigilance is needed. We say that bold policy action has already been taken to support a robust recovery during 2002, and we say that it is essential that the international community stand ready to take timely action to maintain stability and reinvigorate growth. We say that the monetary authorities stand ready to take further action if appropriate. We say also that, while the scope for discretionary fiscal policy action varies across countries, the advanced economies should allow automatic stabilizers to operate. We emphasize the importance of the agreements on trade at Doha being pushed forward to reinvigorate world economic growth.

Brown: "The global slowdown requires and demands global cooperation."

We also agree on the need in the different continents for structural reforms to continue and, indeed, in some cases, to be stepped up so that we can have the increased productivity that is important for growth in the longer term. We turned our attention also to the needs of the poorest countries and the problems that many will face as a result of the slowdown in the world economy. We agreed on the recommendation of IMF Managing Director Horst Köhler, who has done so much in this area, that we must take into account worsening global growth prospects and declines in the terms of trade when updating the HIPC [Heavily Indebted Poor Countries] Initiative and debt sustainability analysis at the completion point. We say that advanced economies must also be prepared to meet the responsibility in providing increased development assistance and debt relief to tackle the increased challenges of poverty reduction and to achieve the Millennium Development Goals. These are the goals for 2015: that every child be in primary education, that we halve poverty, and that we cut infant mortality by two-thirds. Ministers reiterate the importance of fully financing the enhanced HIPC Initiative and urge bilateral donors to fulfill this commitment. We also discussed improving the IMF's facility to engage in crisis prevention and crisis resolution.

This has been an important meeting for the international financial system. Global financial cooperation is being strengthened; we accept and act upon the increasing interdependence of the world economy; and we recognize the responsibilities of the richest countries to the poorest countries around the world. We affirmed that it is not only right to focus on globalization but that it has never been more important to get globalization right.

Köhler: "Market access—opening of markets in the advanced countries and phasing out the subsidies in advanced countries—is the number one issue. The number two issue is the objective of reaching 0.7 percent of GNP for official development."

KÖHLER: I fully agree with our Chair. He conducted the meetings in an excellent and most efficient way. I am very happy with the outcome of this meeting. From my side, there were three objectives. First, to have the IMFC take place in a timely fashion—a demonstration that our 183 members could come together and solve problems. Second, to have a very focused meeting. Third, to address two topics: the global economy—and the sense of urgency for the appropriate policy response—and the fight against money laundering and the financing of terrorism. The outcome of this discussion, chaired by Gordon Brown, is a milestone to build up confidence and make clear that the international community is united in its fight against money laundering and the financing of terrorism.

QUESTION: Is the IMF changing anything about the way it makes forecasts? You seem to have elicited pretty strong reactions from France and the United States.

KÖHLER: You may know that Paul O'Neill and I have a bet: if economic activity is better than the IMF forecast, then I have to invite him to dinner. I will be very happy to invite him to dinner. But the IMF's forecast is a reasonable, working assumption. It provides us with the appropriate balance between awareness about the economic situation—its fragilities and risks—and the need not to be overly pessimistic, instead looking to the underlying strength of the global economy, seeing the potential for productivity gains and further growth.

In this regard, Paul O'Neill impressed his colleagues with his reasonable optimism, not only on the U.S. economy and its ability to promote productivity but also on the ability of the international community to find the right policy response. So, this meeting is a confirmation that there is leadership and a concept for a policy response that will pay off, and it should build confidence.

BROWN: I agree. All the monetary authorities represented around the table have said that they stood ready to take further action, if appropriate, and it was also agreed by the finance ministers that, of course, the scope for discretionary fiscal policy does vary but that the advanced economies should allow automatic stabilizers to operate.

QUESTION: Do you have any numbers or targets for the additional money that the rich countries are to provide for development? Have people renewed their commitment to the UN objective in terms of percentage of GNP?

BROWN: What I said in my speech on Friday was that there had to be a new deal between developed and developing countries. It was as an increased recognition of our interdependence that, in return for actions in developing countries to pursue pro-poor growth policies and to pursue the trade regime suggested at Doha and, equally, to attract investment for the future, the international community should be prepared to do far more. The Zedillo report estimates that it would cost $10 billion for primary education to be available for all; $12 billion for the global health initiative to work in cutting infant mortality by two-thirds; and $20 billion to halve the amount of poverty, as we promised to do, by 2015. We must as an international community look at this $50 billion figure suggested by Zedillo.

What you have from today's meeting is an agreement that advanced countries must be prepared to meet their special responsibility for providing increased development assistance and debt relief to tackle the increased challenges of poverty reduction and to achieve the Millennium Development Goals.

QUESTION: The Group of 20 agreed to have their Deputies work on the idea of standstills and private sector involvement for debt renegotiation. Will the IMF support this work in any sense?

KÖHLER: I heard that the Deputies of the G-20 have been instructed to work on that, so I am interested, of course, in receiving their product. The IMF has a work program on private sector involvement, and I am quite confident that we will come up with a reasonable concept for private sector involvement.

BROWN: Can I add that we were all grateful to Canada, and particularly to Paul Martin, the Finance Minister, for hosting these meetings today. The Group of 20 discussion reflected the view that, in return for the operation of codes and standards and the increased transparency that we are asking of individual countries, as well as for the transparency that is being created by the surveillance work of the IMF and the enhancing of it . . . then the private sector too must accept increased responsibilities.

QUESTION: Chancellor Brown, in your speech at the New York Federal Reserve, you mentioned your support for an international bankruptcy procedure. U.S. Secretary of the Treasury Paul O'Neill has said he likes the idea. Could we get the two of you to formally state whether there is a consensus among the powers that be that this finally ought to happen?

BROWN: There is growing agreement in the international community that we must try to move from what has essentially been an ad hoc and crisis-triggered approach to a far more systematic approach to both crisis prevention and crisis resolution in the international financial system. Some measures that are being discussed are designed to create a more presumptive than an ad hoc approach to dealing with financial difficulties when they do arise.

KÖHLER: We have a work program, and I feel it is appropriate that the IMF should work before we talk.

QUESTION: You are also talking all of a sudden about the need for more foreign aid. What has happened?

BROWN: There is a recognition that the problems of globalization—the large numbers of people in poverty—can be dealt with only by strengthening our international institutions. When I talk about a new deal between the developed and the developing countries, I believe there is scope for a new strategy, a new consensus to develop around trade, investment, policies for stability, and increased development aid. I believe there is support in developing as well as developed countries for that approach. It is a recognition, particularly after the events of September 11, that our interdependence means that what happens in rich countries affects poor countries and what happens in poor countries affects rich countries. There is a new determination and political will to make the changes that are necessary to make the international economy work better, particularly in the interest of those people who are presently excluded.

QUESTION: Your most ardent critics say it is easy for the richer countries to throw these promises around, but you never follow up on them. What is different this time?

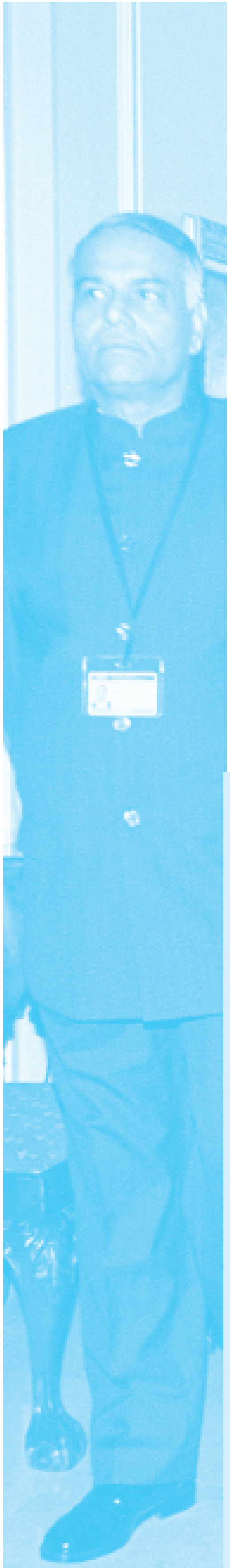
BROWN: We said in 1997 that it was completely unacceptable that only one country was moving through the debt reduction process. Horst Köhler and Jim Wolfensohn agreed with many of us that we had to move that process quickly. Now, 24 countries are going through the debt reduction process, and so $50 billion has been pledged in debt relief. Potentially, if the conflict-ridden countries could be part of that initiative, and are disqualified because of conflict, we would be in a position to give $100 billion in debt write-offs. In other words, there was an international coalition—the churches, community organizations, individual countries, and the inspired leadership of Horst Köhler and Jim Wolfensohn—that made that debt initiative happen.

Now, of course, we have do to more. We are doing more for postconflict countries. We will have to be more flexible because of what has been happening as a result of the slowdown in the world economy. We will be reconsidering, if necessary, the position of the indebted countries at completion points so that there is a sustainable exit from debt. The same coalition of forces must be brought together now for that new deal between the developed and developing countries. I believe there is now also the political will to do that. People understand that the real issue is not whether you are for or against globalization; globalization is moving forward. The real issue is whether you are for or against social justice on a global scale. I believe there is increasing recognition that we have to work together to make the world and the global economy a better place for the world's poor.

KÖHLER: I reported to the Committee about Jim Wolfensohn's and my commitment to work further—very hard, indeed—on the HIPC Initiative and also to review this process country by country at the so-called completion point. Second, we are in a very comprehensive review process of what we call the poverty reduction strategy paper process.

But debt relief is an important part of a comprehensive strategy to fight poverty. We should not forget about the other two pillars of this concept: market access and more official development aid. I gave some very concrete numbers here at the Committee about cotton, sugar, and rice subsidies directed to the United States, the European Union, and Japan to make clear that whenever, however, and how much we will give for debt relief, if the poor countries do not themselves have a better chance to get sustainable business activity, we will not be successful in fighting poverty. Therefore, this market access—opening of markets in the advanced countries and phasing out the subsidies in advanced countries—is the number one issue.

The number two issue is the objective of reaching 0.7 percent of GNP for official development. This is direct, this is grant money, this is money in my view that goes via the budget where the parliaments can really measure the magnitude of solidarity or lack of solidarity in this fashion. I am a bit concerned that the concentration of the debate on debt relief or the Tobin tax is distracting us from an awareness that there is a major problem in the fight against poverty—this is the selfishness in the advanced economies and their difficulty in speeding up the pace of their structural reform. To fight poverty successfully, we need to be serious that growth is based on structural reform in two ways: the poor countries have to adapt to a modern economy, but the advanced countries also have to adapt and restructure their economies. Labor markets and subsidies based on the twentieth-century economy, in principle, are outdated. ■



Development Committee communiqué

Ministers call for global effort to fight poverty

Following is the text of the communiqué of the Development Committee (the Joint Ministerial Committee of the Boards of Governors of the Bank and the IMF on the Transfer of Real Resources to Developing Countries). The sixty-fourth meeting of the Development Committee in Ottawa on November 18 was chaired by Yashwant Sinha, Minister of Finance of India.

Recent events: response of World Bank

Ministers reviewed the impact of the September 11 terrorist attacks and their aftermath on developing countries. They recognized that poverty in many developing countries was likely to worsen as these events have deepened the preexisting global economic slowdown, which had already led to weaker exports and commodity prices, and have other more specific impacts: for example, increased refugee movements within countries and across borders, reduced private investment flows due to increased risk aversion in financial markets, reduced tourism revenues, and increased trade transaction costs. Ministers called for further enhancing the collaboration among the Bank Group, the IMF, the regional development banks, and United Nations agencies in their actions to help member countries address these additional challenges and to strengthen social safety nets. Ministers underlined the importance of renewed growth in industrial countries to the improvement of prospects for poverty reduction in developing countries.

Ministers reviewed the response of the World Bank Group. They stressed the importance of the Group using its financial capacity and the flexibility in its available instruments to respond effectively and promptly to current circumstances and emerging needs. They emphasized that financial support should continue to be linked to strong country performance and reform programs in support of poverty reduction. Ministers agreed that, from a financial standpoint, the magnitude of likely incremental demands on the Bank Group currently appears manageable, but they urged that the Board and Management keep under close review the Bank Group's capacity to respond in more challenging circumstances. Ministers agreed that the International Development Association (IDA) had a particularly

Financing for Development Conference

Following are edited excerpts from the attachment to the Development Committee communiqué on the upcoming Financing for Development Conference.

Building development partnerships on sound policies and good governance. Ministers reaffirmed the critical importance of sound national policies and good governance as prerequisites for poverty reduction and sustained growth.

Strengthening conditions for investment and growth. Ministers stressed a sound national policy environment, essential infrastructure, and good governance are needed for the private sector to invest efficiently and create employment.

Promoting integration into the international trading system. Trade is an important source of growth and poverty reduction, and developing countries need to be able to take greater advantage of the opportunities it offers. The Committee warmly welcomed the launch of a new round of trade negotiations and endorsed the WTO Ministerial Declaration's aim to place the needs and interests of developing countries at the heart of their work program.

Enhancing official development assistance flows. Ministers recognized that for most low-income countries the availability of official development assistance (ODA) remains an essential supplement to domestic resource mobilization and foreign investment if growth and poverty reduction goals are to be achieved. They recognized that a substantial increase in current ODA levels would be required if the opportunities emerging from policy improvements in low-income countries are to be realized and the Millennium Development Goals are to be met.

Reducing the transaction costs of aid. Ministers noted that major improvements in development effectiveness and efficiency, as well as reduced administrative burdens and costs on recipient governments, would be gained from eliminating rigidities in aid delivery mechanisms.

Debt and other instruments. Ministers underscored the need to deploy a flexible mix of instruments to respond appropriately to the needs of developing countries. While urging continued expedited implementation of the HIPC Initiative, they noted that debt relief is only one of many possible actions and instruments to support country poverty reduction strategies.

Global public goods. Ministers noted that the Financing for Development Conference provides an opportunity for enhancing a common approach to global public goods and accelerating progress on the coordination of priority global public goods areas such as those addressing HIV/AIDS and other major infectious diseases.

Making the most of existing institutions. Ministers noted the Financing for Development Conference offers an opportunity to establish a broad international consensus for action on the basis of common objectives and for the identification of specific gaps that may require enhanced international action.

Integration into the global system. Ministers agreed on the importance of promoting the greater integration of developing countries into the global financial system. They noted progress is being achieved through the efforts of, among others, the international financial institutions.

critical role in helping the poorest countries manage the adverse impact of recent events on their economies and people and emphasized that timely agreement on a substantial IDA-13 replenishment was essential. They encouraged all member governments to complete their subscription to the Multilateral Investment Guarantee Agency's general capital increase.

Ministers considered improved governance to be an important element in generating the conditions for investment, private sector–led growth, improved productivity, job creation, and trade and, as a result, for poverty reduction. Thus, they highlighted the need for the Bank and the IMF, in accordance with their respective mandates and comparative advantages, to pay more attention to governance-related issues, including public expenditure management, diagnostic (for example, through the Financial Sector Assessment Program) and capacity-building work to help countries identify and address abuses such as money laundering and terrorist financing. In light of this, they also stressed the importance of working to strengthen further country procurement and financial management systems. They also recognized the need to allocate increased resources to address capacity-building concerns in many countries to help them meet new internationally agreed commitments and standards.

UN Financing for Development Conference

Ministers expressed appreciation to UN Secretary-General Kofi Annan for the opportunity to discuss with him, at the joint IMFC–Development Committee dinner on November 17, issues related to the March 2002 International Conference on Financing for Development [see box, page 368]. They expressed strong interest in contributing to the conference's success, which they saw as an important milestone in the effort to halve the incidence of poverty by 2015 and to reach the other Millennium Development Goals (endorsed by heads of state or government in the UN General Assembly on September 8, 2000) and other agreed targets. They urged governments to involve all relevant ministries in preparing for the conference to enhance coherence of policies with an impact on development.

Poverty reduction strategies

Ministers welcomed the significant progress made in implementing the poverty reduction strategy paper (PRSP) approach, noting that 38 countries had completed interim PRSPs and 8 countries their first full PRSPs. They appreciated the extent to which poverty reduction strategies build on existing national strategies and processes, with a focus on broadening participation and sharpening poverty diagnosis and monitoring, as well as on prioritizing and costing policies and programs for poverty reduction. Ministers welcomed the Bank and the IMF's efforts to work with countries to analyze the poverty and the social impact of programs and to help them build their own capacity. Ministers noted that the joint Bank–IMF staff review of the PRSP approach was under way. They called for a broad-based inclusive process that would draw upon the experience of other stakeholders and development partners and looked forward to considering the report at their next meeting.

HIPC

Ministers welcome the continued progress made in implementing the Heavily Indebted Poor Countries (HIPC) Initiative, noting that 24 countries have now reached their decision points under the enhanced HIPC framework, qualifying for debt-service relief amounting to some $36 billion; 3 countries have now reached their completion points and are receiving their full relief under the enhanced initiative. There has also been a significant reduction in debt stock and debt service in these countries, and the commitment of qualifying HIPCs to increased poverty reduction spending has been encouraging. Ministers urged the Bank and the IMF to work with remaining eligible countries to bring them to their decision and completion points as quickly as circumstances permit.

Meeting the press: Development Committee Chair Yashwant Sinha (middle) flanked by World Bank President James Wolfensohn and IMF First Deputy Managing Director Anne Krueger.

Ministers reiterated their commitment to the enhanced HIPC Initiative as a way for eligible countries to achieve a lasting exit from unsustainable debt. They stressed that long-term debt sustainability will depend upon the maintenance of sound economic policies, strengthened debt management, and the provision of appropriate financing. With regard to recent events, ministers reaffirmed that in exceptional circumstances, when exogenous factors cause fundamental changes in a country's circumstances, the option exists within the HIPC framework, at the completion point, to consider additional debt relief. Ministers noted that the relevant operational procedures for exercising such an option were recently approved by the Bank and the IMF Boards. Ministers also reiterated the importance of fully financing the enhanced HIPC Initiative and urged bilateral donors to fulfill this commitment. They welcomed the agreement among donors to continue their regular consultations on the financial requirements of HIPC. They also urged those creditors that had yet to confirm their participation in the Initiative to do so as soon as possible.

"Ministers consider education one of the most powerful instruments for reducing poverty and laying the basis for sustained growth."
—Development Committee communiqué

Education for All

Ministers consider education one of the most powerful instruments for reducing poverty and laying the basis for sustained growth. They welcomed the World Bank's background paper on this subject and noted the efforts of the Bank and its partners to help ensure that quality primary education is available to all children worldwide as a necessary first step toward strengthening overall education systems. Ministers looked forward to full consideration of this subject at their next meeting, based on an action plan that will address, among other things, the policy and resource requirements needed to ensure that Education for All goals are reached by 2015 through the development of sustainable and high-quality Education for All programs at the country level.

The Committee expressed its great appreciation to Yashwant Sinha for his valuable leadership and guidance to the Committee as its chair during the past 15 months, and welcomed his successor, Trevor Manuel, Finance Minister of South Africa. The ministers also expressed their warm thanks to Alexander Shakow upon his retirement as the Committee's Executive Secretary and welcomed his successor, Thomas A. Bernes. ■

Photo credits: Denio Zara, Padraic Hughes, Pedro Márquez, and Michael Spilotro for the IMF, pages 357, 360, 363–366, 369, 371, 375, 377, and 379; Thomas Coex for AFP, page 372; CARTAC , page 380; and QNA H.O. for AFP, pages 382 and 384.

Available on the web (www.imf.org)

Press Releases

01/45: IMF and World Bank Support $1.9 Billion in Debt-Service Relief for Ethiopia Under Enhanced HIPC Initiative, November 12

01/46: Shigemitsu Sugisaki Reappointed IMF Deputy Managing Director, November 14

01/47: Communiqué of the International Monetary and Financial Committee of the Board of Governors of the IMF, November 17

News Briefs

01/111: IMF and World Bank Heads Call For a New Round of Multilateral Trade Negotiations at Doha, Qatar, November 8

01/112: IMF Completes Review Under Zambia's PRGF Arrangement and Approves $64 Million Disbursement, November 8

01/113: IMF Managing Director Welcomes Japan's PRGF Contribution, November 12

01/114: IMF Publishes Quarterly *Emerging Market Financing Report*, November 14

01/115: IMF Managing Director's Statement on the Global Economic Situation, November 15

01/116: IMF Managing Director's Statement on Turkey, November 16

01/117: Italy Providing Financing to Support IMF Technical Assistance Targeted at Strengthening Financial, Fiscal, and Statistical Standards, November 16

Public Information Notices

01/120: IMF Board Discusses the Fund's Intensified Involvement in Anti–Money Laundering and Combating the Financing of Terrorism, November 16

Transcripts

A New Trade Round for a Better World—Statement by IMF Managing Director Horst Köhler at the Fourth WTO Ministerial Conference, Doha, Qatar, November 10

IMF Economic Forum—Anticipating Crises: Model Behavior or Stampeding Herds, November 13

Press Conference by African Finance Ministers, November 13

Group of 24 Press Conference, November 14

Press Briefing by Horst Köhler, Managing Director, November 15

International Monetary and Financial Committee Press Conference by U.K. Chancellor of the Exchequer Gordon Brown and IMF Managing Director Horst Köhler, November 17

IMF Factsheets

Debt Relief Under the Heavily Indebted Poor Countries (HIPC) Initiative, November 16

Debt Relief for Poor Countries: What Has Been Achieved? November 16

Other

Global Trade Liberalization and the Developing Countries—An IMF Issues Brief, November 8

"Open Your Markets," a Der Spiegel Interview with Horst Köhler, November 8

IMF Financial Resources and Liquidity Position, November 13

Slovak Republic: Preliminary Conclusions of the IMF Mission to Review the Staff-Monitored Program, November 14

Quarterly Update on the Special Data Dissemination Standard—Third Quarter 2001, November 14

International Monetary and Financial Committee and Development Committee Meetings, November 14

Communiqué—Group of 24, November 14

Building Peace in South East Europe: Macroeconomic Policies and Structural Reforms Since the Kosovo Conflict, November 15

Intensified Fund Involvement in Anti-Money-Laundering Work and Combating the Financing of Terrorism, November 16

Communiqué of the Development Committee, November 18

Group of 24 communiqué

G-24 stress peace, cooperation, solidarity

Following are edited excerpts from the communiqué issued by the ministers of the Intergovernmental Group of 24 on International Monetary Affairs and Development (the Group of 24) in Paris on November 14.

Growth and development challenges

Ministers condemn the terrorist attacks of September 11 and express their deep regret for the tragic loss of innocent lives. These unfortunate events have taken a significant toll on the already weakening global economy, with particularly devastating effects on developing countries. Ministers stress that, in the exceptional circumstances facing the international community, achieving peace, strengthened cooperation, and solidarity are all the more required to overcome the major challenges facing all countries.

Recent developments have highlighted the speed and intensity of negative shocks affecting all countries, with far-reaching consequences for the stability of the international financial and trading systems. In an increasingly interdependent world, there is an urgent need for the international community to reduce uncertainty and volatility and to cushion affected countries from such negative shocks by helping them to resume economic growth and development.

Ministers reaffirm their commitment to work toward the goal of improving the lives of people in all countries, particularly in the poorest, through the pursuit of policies that promote macroeconomic and financial stability, support faster growth, reduce poverty, and respect all countries' sovereignty. In this regard, ministers welcome the pledges made by the Managing Director of the IMF in his October 5 statement [see *IMF Survey*, October 22, page 325] and the reassurances given by the President of the World Bank indicating the concrete steps the Bretton Woods institutions are prepared to take in support of developing countries.

Global growth prospects

Ministers express deep concern about the worsening prospects for global growth and the synchronized nature of the slowdown in the United States, Japan, and Europe. Growth has slowed sharply in the United States and Europe, while Japan has slipped back into recession. World trade is expected to grow by only 1.5 percent in 2001, compared to 12.4 percent in 2000. Growth of exports from developing countries is projected to plummet from 19 percent in 2000 to only 3 percent in 2001. Commodity prices have continued to fall, with non-oil commodity prices projected to fall by at least 5 percent in 2001 and oil prices also dropping steeply.

Ministers stress that developing countries are the most severely affected by the serious slowdown of the world economy through a number of channels. Declining external demand for their products, falling commodity prices, lower tourist receipts, restrictions on market access, increasing risk aversion in financial markets, and lower levels of foreign direct investment will substantially reduce growth. For most developing countries, the September 11 terrorist attacks have led to large increases in transaction costs, principally of insurance and transportation, while income from tourism has dropped sharply along with a decline in export earnings. Net private capital flows to emerging markets are set to turn negative for the first time in a decade. Capital market financing declined sharply in the first half of 2001, and spreads have widened significantly. Moreover, the prospect of large segments of the capital markets remaining closed to emerging country issues and the slowing of foreign direct investment could lead to lower investment spending and to an erosion of debt sustainability and macroeconomic stability, thereby further weakening growth prospects.

Sen. Jubril Martins-Kuye, Nigeria's Minister of State for Finance, chaired the meeting, in Paris, of the Group of 24.

Ministers express concern that the convergence of these negative forces could have a severe impact on living standards, financial stability, and the success of the reform efforts in the developing world. Poverty reduction programs will be hurt, unemployment could increase, and per capita income growth could stall or decline. In turn, the already weak social safety nets in developing countries could be further strained by the human costs of the slowdown.

Ministers express particular concern about the effects of these developments on low-income countries. Strong reform efforts were bearing fruit, particularly in Africa, and HIPC [Heavily Indebted Poor Countries] Initiative countries were beginning to benefit from some debt relief. However, recent developments could derail this progress. In particular, the gains in standards of living in Africa are expected to be reversed, making it more difficult to contain the already high human cost of the HIV/AIDS pandemic, for which special international support is required. In this context, ministers stress the need to provide further resources—especially official development assistance, case-by-case Paris Club interest payment postponements on rescheduled debt, and the fulfilling of commitments to the HIPC Trust Fund—as

well as more technical assistance to help countries face the new challenges and continue their adjustment and reform efforts. Consideration should be given to addressing the debt sustainability of middle-income heavily indebted countries and non-HIPC low-income countries.

In these circumstances, ministers reaffirm their commitment to continue pursuing sound macroeconomic policies in their own countries consistent with sustained growth. However, owing to weaker global demand and the closing of access to financial markets, the conventional policy response of contracting domestic demand or depreciating their currencies may not help developing countries overcome the challenges of worsening external conditions. Moreover, the global economic downturn would significantly worsen if all developing countries followed such policies. In this regard, it is essential that the advanced economies take urgent additional steps to boost global growth. The steps already taken to ease monetary policy are welcome and should be supported by further easing, while well-designed fiscal stimulus should be implemented quickly. In order to boost sagging confidence and the prospects for global growth, broad-based trade liberalization should ensure better market access to products from developing countries. Other structural reforms—especially in the labor and product markets—should also be pursued with added urgency.

Ministers stress the urgency of substantially improving the trading opportunities and capacities of developing countries in current trade negotiations. In this regard, it is imperative that advanced economies eliminate subsidies, severely limit their import restrictions—especially for agriculture and textiles—and curtail other nontrade barriers that seriously impede trading opportunities for developing countries. Substantially greater flexibility on trade-related intellectual property rights is needed—especially with respect to urgent public health matters.

Combating money laundering and the financing of terrorism

Ministers reaffirm their support for international efforts to combat money laundering and the abuse of the international financial system. They also stress that the IMF's role in combating money laundering and the financing of terrorism should be consistent with its mandate and core areas of expertise. Ministers underline that the IMF is not a law enforcement agency. The abuse of the international financial system through the conduct of illegal activities hurts development prospects and undermines the integrity of financial sectors. In this context, it is important to develop an internationally cooperative strategy, which should encompass not only offshore financial centers but also large capital market centers of developed countries where most of the financial flows originate or through which they pass. Ministers welcome the recent United Nations (UN) resolutions in combating terrorism and the ongoing efforts to strengthen the Financial Action Task Force (FATF) recommendations, and they stress that greater international cooperation among international bodies is needed. It is important that more developing countries be appropriately represented in the FATF and other relevant bodies. Of equal importance, the monitoring of the implementation of internationally agreed standards must be done on a uniform, cooperative, and voluntary basis, which should take into account the members' capabilities and stage of financial sector development. Ministers stress the importance of additional technical assistance to developing countries to strengthen their financial systems and to help correct deficiencies in members' regulatory frameworks to combat money laundering and financial abuse.

Financing for development

Ministers consider that the process leading to the UN Conference on Financing for Development offers a unique opportunity to focus international political will on mobilizing substantial means and intensifying concerted action to reduce poverty, fulfill the Millennium Development Goals, and advance the development of all countries. They point out that, although the Conference on Financing for Development should not be seen as a venue for redesigning the international financial architecture, it should be a forum for discussing and reaching agreement on selected national, international, and systemic issues of principle and as the starting point of better international cooperation for development through the engagement of all countries and multilateral institutions in coming decades. Ministers underline that national efforts to create an enabling domestic environment for investment can bear fruit in a globalized world economy only if the international environment is supportive of, and conducive to, a significant and stable flow of international resources to developing countries. In light of the current environment, ministers urge that agreement be reached rapidly on increasing official development assistance from the current 0.22 percent of GNP toward the UN goal of 0.7 percent of GNP.

Actions proposed for IMF, World Bank

Ministers call for the following actions:

• The IMF should continue to keep the current global economic situation under close review. The IMF and the World Bank should ensure that they are ready and able to provide appropriate financing in a timely manner, including Bank guarantees, to member countries affected by recent external shocks and committed to sound macroeconomic and structural policies.

• The IMF should ensure that global liquidity is sufficient and adequately distributed, including by undertaking an early consideration of a general SDR allocation. The Fourth Amendment of the IMF's Articles of Agreement to implement the pending special, one-time allocation of SDRs should be ratified immediately by those countries that have not yet done so.

• In light of the challenges posed by globalization and the universal membership and unique cooperative character of the IMF, the quota formulas should reflect members' relative economic size, potential need for IMF resources, vulnerability to changes in market sentiment and access to private capital flows, and capacity to contribute. In this regard, the quota formula governing future general increases should allow for the strengthening of the representation of developing countries, in particular sub-Saharan African countries, in the voting and quota structure of the IMF.

• A general capital increase for the World Bank should be negotiated in order to strengthen its capacity to meet the expected call on its resources by developing countries.

• The IMF and the World Bank should expedite the provision of more generous debt relief under the HIPC Initiative. They should keep under constant review countries' debt sustainability analyses. Utmost flexibility under the framework should be exercised, and the international community should ensure that adequate aid resources are made available in addition to debt relief.

• The full financing of the interim PRGF [Poverty Reduction and Growth Facility] should be secured immediately, and the possibility of mobilizing additional resources should be considered in the context of the interim PRGF to permit increased support of low-income members in the immediate circumstances;

• The replenishment of [International Development Association] IDA-13 should be completed urgently, and country allocations should be made up-front in view of the extraordinary development challenges facing IDA-eligible countries.

• Multilateral development assistance should be increased and better coordinated with bilateral and other donor assistance to reduce transaction costs and bring about greater coherence in development efforts.

• The IMF and the World Bank should provide additional technical assistance to developing countries to strengthen their institutional capacities.

• The World Bank, along with the regional development banks and bilateral export credit agencies, should consider ways of facilitating the trade financing for developing country exports. In that regard, there should be a speedy implementation of the initiative established by the World Bank on the International Task Force on Commodity Risk Management in Developing Countries, which could address the adverse impact of price volatility on developing countries. ■

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IMF SURVEY

"The IMF and the World Bank should expedite the provision of more generous debt relief under the HIPC Initiative."
—Group of 24 communiqué

African finance ministers' press conference

Africa needs debt relief, aid, and market access

Following are edited excerpts from a press conference, held on November 13 by a group of African finance ministers. The IMF's External Relations Department has been organizing press conferences with African ministers of finance over the past three years during the spring and Annual Meetings to give African member countries' representatives the opportunity to express their views on issues of interest to their countries. The ministers also met with the heads of the IMF and the World Bank. The following ministers participated in the press briefing: Gerald Ssendaula, Minister of Finance, Planning, and Economic Development for Uganda and President of the African Group of the Board of Governors of the IMF; Jean Baptiste Compaore, Minister of Finance for Burkina Faso; Ali Gamatie, Minister of Finance for Niger; Magnus Kpakol, Adviser to the President of the Republic of Nigeria; and Gaston Edouard Ravelojoana, Governor of the Central Bank of Madagascar.

QUESTION: Today the World Bank and the IMF announced that they are giving HIPC [Heavily Indebted Poor Countries] status to Ethiopia and that Ethiopia will receive some debt relief in the future. What is your reaction to that news, and should other countries be considered for debt relief?

SSENDAULA: I will ask Girmai Abraham, World Bank Executive Director for Africa, to answer this question.

ABRAHAM: There are many countries in the pipeline, but it is difficult to come up with an exact number. How soon they would come to the Executive Board and be considered for HIPC eligibility will depend on how soon they prepare a poverty reduction strategy paper (PRSP). That is something that depends on the capacity of the countries themselves and is not determined by the Bretton Woods institutions.

QUESTION: Was the HIPC Initiative part of the discussion you had with the Managing Director of the IMF? What are the main points of the letters that you presented to the heads of the IMF and the World Bank?

SSENDAULA: In the letter to the President of the World Bank, we highlighted the concerns of African countries related to their deteriorating economic position. A main issue is the delivery of debt relief. We urged the World Bank to speed up the process of debt relief by closing the gap between the decision point and the completion point. We also expressed our concern that our commodities, which are mainly primary commodities, do not have a fair share of the market because they cannot compete with subsidized goods. We also pointed out that Africans were underrepresented in the World Bank and urged the Bank to recruit more Africans. We mentioned that more funds are needed to carry out further research into HIV/AIDS drugs and to see whether we can have a vaccine. Last, we requested more support to encourage more investors to invest in our economies.

In the afternoon, we met with the IMF's Managing Director. As the IMF deals with policy matters, we highlighted matters that relate to policy such as quotas and the PRSP framework. The meetings with the heads of both institutions were extremely useful and cordial. They listened carefully and promised to present our case to the international community. They are keen to see Africa get out of its debt trap and to see it develop. However, the September 11 events have had a large impact on Africa. For instance, when people cannot effectively travel there will be limited tourism in Africa and, therefore, fewer earnings. Also, when spending by the industrial countries slows down, the demand for our commodities will drop. We already have the problem that most of our major agricultural commodities are facing very low prices.

QUESTION: The Bush administration says it would prefer to provide grants, as opposed to loans, to countries emerging from the HIPC Initiative. Is this something that countries in the region support?

SSENDAULA: We definitely welcome more grants and aid. And, if we have to get loans, they should be on concessional terms.

GAMATIE: When countries go through the HIPC process, it means that they have been undergoing a program of policy reforms. The country has taken responsibility for trying to make changes in its own economy and has established a track record of good policies. What the Bush administration is saying is that if countries do their share, they should be helped. However, the flow of aid to Africa continues to decline.

COMPAORE: While aid is important, the question of market access is even more pivotal. That being said, more aid is needed to mobilize all the available resources. We recognize that in the past we may not have done quite as adequately as might have been expected, and we have not been as prudent and disciplined with our resources. African countries are very aware of that and are incorporating that into their programs.

KPAKOL: Those countries that are undertaking a poverty reduction strategy should receive resources to help them, but these are to be in significant amounts. What is being provided now is not sufficient, especially in light of the September 11 events.

RAVELOJOANA: Aid and debt relief are important, especially in these difficult times. However, I would emphasize the importance of market access. We want these questions of market access to be resolved in a reasonable length of time so as to make sure that there will be not only be a better balance but also sufficient encouragement to support the efforts we have made.

QUESTION: Does something new bring you to Washington today? What is different from before?

GAMATIE: We are not here to discuss a new strategy, a new partnership, or a new way of doing business. What we are saying is, do not drop Africa off your radar screen because we are going to lose the progress we have made during the past five years. There is much more going on in Africa right now that has not received the attention it should from the media. We are here to make sure that we can keep on doing our work.

SSENDAULA: We want to let the two institutions know that, in spite of the September 11 attacks, we have carried out all the necessary reforms. But we still need support.

We want more access to the markets. We want a larger effective share of global investments because we have carried out the necessary reforms. Our economies have been liberalized and we have created a favorable environment for investment. We have come to Washington to ask the Bretton Woods institutions for their support in attracting more investments.

We have also come here to let the world know that the UN target for official development assistance is expected to rise to 0.7 percent of GNP, but the current level now is only 0.24 percent of GNP. We are not saying that Africa should live on grants and aid for a long period of time. We need aid to reach a sustainable level of growth. It is not fair for the rest of the world to grow and leave Africa behind undeveloped. They need to take us with them.

I want to thank the IMF for organizing this press conference and for allowing us to voice our concerns. African countries will be more coordinated in their message and we will be repeating it until we get a solution. ■

Group of 20 communiqué

Ministers adopt action plan on terrorist financing

Following is the communiqué issued by the Group of 20 finance ministers and central bank governors after their meeting in Ottawa on November 16.

We, the finance ministers and central bank governors of the Group of 20, held our third meeting today in Ottawa against the backdrop of a global economic slowdown whose effects have been exacerbated by the tragic events of September 11. The barbarous attacks on the United States were attacks on all of us, intended to shake global economic confidence and security. We will ensure that these efforts fail.

We are committed to combating terrorism by cutting off its financial sources. There should be no safe havens for the financing of terrorism. To this end, we have agreed on an action plan to deny terrorists and their associates access to our financial systems. We call on other countries to take similar steps.

We are confident that the attacks of September 11 will not undermine our economic prospects. We have taken policy actions to maintain liquidity and stabilize markets. We stand ready to take additional actions as necessary. These measures will provide the foundation for an early resumption of growth without undermining our future economic prospects. We agreed that heightened security measures should be implemented in a manner that facilitates the cross-border flow of legitimate trade in goods and services. We reaffirm our commitment to free trade and open international markets as a key source of global prosperity. In this context, we welcome the Doha Development Agenda agreed to at the World Trade Organization (WTO) ministerial conference launch of a new WTO trade round and commit to work together to achieve multilateral trade liberalization that accelerates progress against poverty and promotes growth.

The reduction of capital flows to emerging markets underscores the need for sound policies to provide and maintain a positive investment environment in member countries. We remain committed to this endeavor. Adopting the best practices embodied in international standards and codes also will help support strong, stable growth and reduce the risk of future financial crises. A majority of the members of the Group of 20 have already participated, on a voluntary basis, in assessments under one or both of the IMF–World Bank–led Financial Sector Assessment Program and Reports on the Observance of Standards and Codes, consistent with our undertaking at our inaugural meeting in Berlin in December 1999. We will continue to promote adoption of international standards and codes for transparency, macroeconomic policy, sound financial sector regulation, and corporate governance in consultation as appropriate with relevant international bodies and with the private sector, and thereby strengthen the integrity of the international financial system. We will continue our work on appropriate exchange rate regimes, prudent liability management, and orderly liberalization of the capital account. These efforts will reduce susceptibility to financial crises.

Canadian Finance Minister Paul Martin, Chair of the Group of 20, talks with the press.

Borrowing countries, creditors, and the international community have a common interest in efficient and well-functioning international capital markets. We would welcome the earliest possible resolution of Argentina's debt problem. We recognize that lenders are increasingly differentiating between different international borrowers, be

Action plan to stop terrorist financing

We, the finance ministers and central bank governors of the Group of 20, in the name of global peace and security, are determined to stop the financing of terrorism. The fight against terrorist financing is a shared responsibility of the Group of 20 and the broader international community. We have therefore adopted today a comprehensive action plan of multilateral cooperation to deny terrorists and their associates access to, or use of, our financial systems and to stop abuse of informal banking networks.

We will implement quickly and decisively the measures that the United Nations (UN) has identified as essential to combating terrorist financing. We will block terrorists' access to our financial system. We will work with the international financial institutions, the Financial Action Task Force (FATF) on Money Laundering, the Financial Stability Forum, and other relevant international bodies to prevent abuses to the financial system and threats to its integrity through the promotion of international standards relevant to terrorist financing, money laundering, and financial sector regulation and supervision. We welcome the conclusions of the recent FATF extraordinary plenary on terrorist financing. Above all, we will enhance our ability to share information domestically and internationally as a vital component in the fight against terrorism.

We encourage all nations to join the international effort to choke off the financing of terrorism. Where a country's willingness outstrips its ability to act in concert with us, we will provide technical assistance in accordance with this action plan.

In pursuing these commitments, we have agreed to the following concrete steps:

Freezing terrorist assets

• Each Group of 20 member will implement the relevant UN Security Council Resolutions, particularly UNSCR 1373, to stop the financing of terrorism.

• To this end, each Group of 20 member will, within its jurisdiction, freeze the assets of terrorists and their associates and close their access to the international financial system.

• Each Group of 20 member will, consistent with its laws, make public the lists of terrorists whose assets are subject to freezing, and the amount of assets frozen, if any.

Implementation of international standards

• Each Group of 20 member will ratify and implement the UN Convention for the Suppression of the Financing of Terrorism as soon as possible.

• Each Group of 20 member will ratify the UN Convention against Transnational Organized Crime.

• We will work cooperatively and in collaboration with the IMF and the World Bank, FATF, the Financial Stability Forum, the Basle Committee of Banking Supervisors, and other relevant international bodies to promote the adoption, implementation, and assessment of international standards to combat the abuses of the financial system, including in respect of terrorist financing, financial regulation, and money laundering. We welcome FATF's offer to work collaboratively with us in implementing eight special recommendations on terrorist financing.

Exchange of information and outreach

• We will enhance our cooperation on the international exchange of information, including on actions taken under UN resolutions. Group of 20 member countries will promptly implement such measures as are necessary to facilitate this exchange.

• Each Group of 20 member will establish promptly, or maintain, a financial intelligence unit and will take steps to enhance information sharing among members, including through promoting universal participation in the Egmont Group of such units.

• We will promote the fight against terrorist financing within our respective regions and will ask other countries to join this action plan.

• An important element of this effort is the work of the regional FATF-style anti-money-laundering bodies. Accordingly, the Group of 20 calls on these regional bodies to meet promptly and to expand their mandates to include terrorist financing.

Technical assistance

• We are committed to providing, where possible, technical assistance to countries that need help in developing and implementing necessary laws, regulations, and policies to combat terrorist financing and money laundering.

• We call on the IMF, the World Bank, and other multilateral and regional organizations to provide technical assistance, including by expanding existing programs and training centers.

Compliance and reporting

• To promote implementation and compliance with international standards and to share information regarding our respective laws, regulations, and best practices to address terrorist financing, we will support the activities of the UN Counter-Terrorism Committee. We will also actively support surveillance and voluntary self-assessment through the international financial institutions, FATF, and relevant international bodies.

• We will respond positively to the FATF's invitation to participate in a self-assessment of the eight special recommendations on terrorist financing.

• We encourage the Financial Stability Forum, at its next meeting, to undertake work respecting the actions of financial sector regulators in the fight against terrorism.

• We will ensure that our financial institutions and citizens comply with measures to combat the financing of terrorism and other financial crimes and will assist them to do so, including by informing financial institutions of their obligations and new developments.

• We urge the regional FATF-style bodies to actively contribute to the FATF's worldwide self-assessment program.

• We will review our progress on this action plan at our next ministerial meeting.

they private or sovereign. Good communication between borrowers and their creditors can play an important role in sustaining capital flows to emerging markets. Building on the recent Group of 20 roundtable with private sector representatives on promoting efficient international capital markets, we have asked our deputies to report to our next meeting on improving the way financial crises are resolved, taking into account the lessons learned from experience in emerging markets. A common objective is to reduce uncertainty and ensure the sustainability of capital flows to emerging markets.

We recognize that the world's poorest and most vulnerable are facing acute challenges in the midst of the global economic slowdown—in particular, the increased uncertainty resulting from the terrorist attacks. We look forward to participating constructively in the International Monetary and Financial Committee and Development Committee meetings with a view to ensuring that appropriate international support is available to complement the sound national policies needed to generate economic recovery in those countries most affected.

Building on our discussion at our last meeting in Montreal, we reviewed our experiences in responding to the challenges of globalization. We agreed that greater economic integration has led to demonstrable improvements in living standards for the vast majority of our citizens. The Group of 20 and other countries that have integrated into the global system have in general made significant progress in raising real incomes and reducing poverty. But globalization also poses a number of challenges and risks, which call for enhanced international cooperation. We recognize the need to work with the international financial institutions and the WTO to ensure that the benefits of globalization are shared by all, including the poorest countries. To obtain the full benefits of globalization, our governments have a critical role in creating well-developed domestic institutions, good governance, and sound domestic macroeconomic, social, and structural policies. As reflected in the Montreal Consensus, by sustaining such policies we ensure that our economies are better able to maximize the contribution of open markets to growth, equity, and well-being for all our peoples. ■

French Finance Minister Laurent Fabius speaks to the press after the Group of 20 meeting.

Rogoff plans to strengthen policy research

(Continued from front page) more important than ever that industrial country policymakers adopt a global vision of the impact of their domestic policies and not simply look inward.

IMF SURVEY: Are there any particular policies they should be following?

ROGOFF: Monetary policies are certainly very important as a first, flexible line of defense. But the scope for fiscal policy is somewhat limited, especially when we face such an uncertain environment. Fiscal policy is a fairly inflexible tool. Once in place, it creates its own political dynamic that is very difficult to reverse, whereas monetary policy can turn on a dime. You can lower interest rates 2 percent over the course of a couple months and then raise them 3 percent over the course of the next couple of months. So, in the current environment, monetary policy is the most important, and fiscal policy less so. It's also important to put structural reforms in place—for example, making labor markets more flexible in Europe and addressing the bad loan problem in Japan.

IMF SURVEY: Turning to the job you've undertaken, what is your vision for the Research Department? What role should it be playing both internally and externally?

ROGOFF: The Research Department has many roles to play. The IMF's surveillance role is very important and probably has become even more important with the global downturn. I don't want to do anything that takes away from that effort. Nonetheless, a key goal of mine is to strengthen and reenergize our policy research through encouragement and guidance. I also think it is important that the department be visible externally. It strengthens the IMF's credibility in the outside world by having a strong research presence. I don't necessarily mean just in the narrow sense of academic journals but more broadly in the policy world. To this end, I am working very closely with management and our Executive Directors—representing our 183 member countries—to determine what issues we should be working on.

IMF SURVEY: What does the creation of the new International Capital Markets Department imply for the Research Department's involvement in the work of financial markets?

ROGOFF: I think it has greater implications for surveillance of financial markets, which will be handled, in the first instance, by the International Capital Markets Department. In terms of research, we will continue to conduct research on financial markets, undoubtedly at times jointly with the International Capital Markets Department. After all, you can't even think about the modern world without thinking about financial markets. Fortunately, we have very good relations with the International Capital Markets Department, and Gerd Häusler [its Director] and I get along very well. I find a lot of synergy in our approaches to things. There is also

"As policymakers, we try to be levelheaded and sensible, and sometimes that narrows our thinking too much. You really need to be able to think 'outside of the box.'"

—Kenneth Rogoff

another major research center in the IMF—the IMF Institute—which is comparable in size to the Research Department and is conducting a lot of interesting work. We hope to expand our cooperation with the IMF Institute, which is under the leadership of Mohsin Khan. He and I worked together as colleagues at the IMF in 1982–83, and he has given me a lot of valuable advice during my transition back to the IMF.

IMF SURVEY: Will poverty research be part of the Research Department's work?

ROGOFF: We are a very small department, so it's hard to cover everything. But poverty is extremely important, and, for that reason, we are organizing a poverty conference in March. We also have a number of projects under way dealing with problems in African countries such as the implications of commodity price fluctuations for exchange rate policy. I'm sure a lot of our other research will also have implications for the poorest countries in the world. We will want to keep our eye on macroeconomic developments and other areas where the IMF is likely to have the most influence, but clearly, the World Bank, with its poverty mandate, will be the central place for more microeconomically oriented poverty research.

IMF SURVEY: Of your extensive past research, which work is proving most relevant to the issues that the IMF currently faces?

ROGOFF: I have worked on a broad range of issues—exchange rates, monetary policy, and determinants of the current account. But if I had to pick one, I would say my work in the 1980s on international debt issues and international financial architecture was the most relevant. The paper I wrote with Jeremy Bulow in 1988, which ran in *IMF Staff Papers*, was probably the first one to identify the moral hazard problem in international lending that creditor country governments face.

My most cited paper is undoubtedly the one I wrote in 1983 at the IMF on the importance of having an independent central bank to maintain low inflation and of having a central bank governing body that is very conservative on inflation, maybe more so than society on average. It is sometimes nicknamed my "conservative central banker" paper.

My early work on exchange rates focused mainly on industrial country exchange rates. When I was at the U.S. Federal Reserve Board in Washington at the beginning of the 1980s, I wrote what was then a radical paper showing that it was very difficult not only to predict exchange rates but also to explain why they went up or down after the fact. That paper—which Paul Krugman described as an anti–neutron bomb because it destroyed the models but not the authors who created them—was written when the floating experience was only seven or eight years old, but it pretty much remains true today. Since that time, I have also done work on developing country exchange rates, most notably my 1995 paper with Maurice Obstfeld entitled "The Mirage of Fixed Exchange Rates," which cautioned sharply against relying on a fixed exchange rate as a substitute for macroeconomic adjustment.

IMF SURVEY: Has what you predicted back then on moral hazard come true, especially with Argentina now?

ROGOFF: Yes and no. Certainly the paper was very influential in making people realize how an agent intending to be a good samaritan can sometimes get drawn into negotiations and be exploited. I was motivated by the fact that international financial institution loans to highly indebted countries expanded sharply during the debt crisis of the 1980s, while private sector lending sharply contracted.

But I have been surprised since then by how effectively the international financial institutions have been able to enforce their seniority over the years, despite running up very large positions against some of the client countries. During the Asian crisis, there was a lot of talk about moral hazard, but those loans have been largely repaid, and the IMF's position today is highly liquid. Moral hazard is undoubtedly an issue that we must think about, but it is far more subtle than most critics of international financial institution lending seem to appreciate.

IMF SURVEY: What is the most useful kind of research that a graduate student or academic economist can do to prepare for work as a policy advisor?

ROGOFF: It is very important for graduate students to become familiar with recent technical developments and stay up-to-date in the field. You have a lifetime to learn the policy side of things, and if you're interested, you will. As for the technical side of economics, if you don't become engaged when you're in graduate school, you probably never will. I am not saying that one stops learning after graduate school; I myself have undoubtedly

Members' use of IMF credit
(million SDRs)

	During October 2001	January–October 2001	January–October 2000
General Resources Account	0.00	21,306.70	2,874.37
Stand-By	0.00	20,564.70	1,851.10
SRF	0.00	12,662.31	0.00
EFF	0.00	742.00	1,023.27
CFF	0.00	0.00	0.00
PRGF	138.49	633.61	373.38
Total	138.49	21,940.31	3,247.75

SRF = Supplemental Reserve Facility
EFF = Extended Fund Facility
CFF = Compensatory Financing Facility
PRGF = Poverty Reduction and Growth Facility
Figures may not add to totals shown owing to rounding.

Data: IMF Treasurer's Department

learned a lot more *since* graduate school than I ever did *in* graduate school. It is critical, however, to be able to read papers in the field, even highly technical ones. It is also important to expand your horizons and maintain your creativity. If you look at the backgrounds of policy advisors, they are sometimes very practical and sometimes surprisingly esoteric.

IMF SURVEY: Do you think your extensive chess background has shaped the way you approach economics? Are you able to stay 10 steps ahead of everyone else?
ROGOFF: It doesn't do much good to be able to see 10 moves ahead if you're not able to see the right move 1 move ahead. But chess is probably more like policymaking than academics. As an academic, if you say 10 crazy things and 1 thing that is really brilliant and creative, you can have a reasonable scorecard at the end. In a chess tournament you would have 1 win and 10 losses. So chess is much more about consistency within a game and across a tournament, and academics is much more about your wildest, most creative moments.

IMF SURVEY: You once commented that a chess purist "wants to find the perfect move in every position and believes that can be done." This sounds much like the advice we often get from academicians—optimal policy recommendations in the abstract. Now that you've been on both sides of the street, is this type of advice practical in the real world?
ROGOFF: Often, being sensible can lead you to the wrong answer. As policymakers, we try to be levelheaded and sensible, and sometimes that narrows our thinking too much. You really need to be able to think "outside of the box." Over time, it is the crazy ideas that often prove right; that said, it is a real art and skill to be able to guess which crazy ideas.

IMF SURVEY: Do you fall into any particular "school" of thinking?
ROGOFF: There has been a remarkable convergence of thinking within my generation of macroeconomists. The whole debate about Keynesians versus monetarists and real business cyclists versus new Keynesians is a dead issue. There is much more of a modern synthesis, as represented, for example, in my 1996 book with Obstfeld, *Foundations of International Macroeconomics*, which is used by a wide range of people. I think that we were able to write a book like ours largely because many of the debates of the 1970s and 1980s had been somewhat resolved. One issue that was resolved probably more in favor of the Midwestern schools is that rational expectations are key; when making policy, you have to take into account how markets and prices will react. Another issue that was resolved very much in favor of the Keynesians is that you can't think about a world without nominal price rigidities and wage rigidities.

For a long time, the real business cycle school—including [Robert] Lucas, [Ed] Prescott, [Tom] Sargent—rejected the idea that there were any nominal rigidities in the economies. Now all of them, Lucas included, have nominal rigidities in their models. With the emerging consensus (embodied in my book with Obstfeld and, for example, in Michael Woodford's recent book), we might even see a reemergence of large-scale macro models, which were held back for many years by the disagreements about the basic building blocks. Now that there is more agreement about the building blocks, we can get ahead with work on building multi-country macroeconomic models that allow us to analyze global macroeconomic policy implications. This is certainly a topic the Research Department hopes to take on, though I admit development of such models can take many years.

IMF SURVEY: You said at the age of 19 in a national magazine, "I'm not sure I'd want to spend the rest of my life playing chess, anyway. It isn't the real world." Any regrets?
ROGOFF: I certainly have an unusual background—a career that spans from Bobby Fischer [former world chess champion] to Stanley Fischer. Being a chess player is much more like being an artist. It's a bohemian life, and I could have gone that way. But I am happy I chose to pursue economics. Why did I give up chess? The reason was threefold: I wanted to do something more important with my life; I didn't want to travel so much; and I didn't think it was great for my social life. Then, of course, I became an academic economist, which seemed to share the same three faults. But I'm happy to be here in the IMF, because at least on the first count, I don't have to worry about whether what I am doing is useful or not.

IMF SURVEY: Has the IMF changed much since you were first here in the early 1980s?
ROGOFF: Less than you might imagine. One of the great strengths of the institution has been its stability and adaptiveness to the needs of the world and its members. My foremost impression when I was here in the early 1980s was the excellent and vibrant staff. It still is absolutely excellent and vibrant, and I think that is the core of what the IMF has to offer to the world. That said, I think the biggest, and most welcome, change has been the institution's greater transparency and openness, which is critical for creative thinking. ■

Rogoff: "I certainly have an unusual background—a career that spans from Bobby Fischer [former world chess champion] to Stanley Fischer."

Caribbean center inaugurated

Capacity building is a key goal of CARTAC

On November 5, Caribbean leaders and senior officials from sponsoring agencies gathered in Barbados to inaugurate the Caribbean Regional Technical Assistance Center (CARTAC). The Center is designed to pool regional and donor expertise to help Caribbean Community (CARICOM, see box), members and the Dominican Republic strengthen economic and fiscal management, improve financial sector supervision and regulation, and compile more timely and useful economic, financial, and social statistics.

IMF Managing Director Horst Köhler (left) delivered the keynote address at CARTAC's opening. With him are Barbados Prime Minister Owen Arthur (middle) and St. Kitts and Nevis Prime Minister Denzel Douglas.

The event drew distinguished regional and international participation, including Secretary General Edwin Carrington of CARICOM and the Prime Ministers of Barbados, Owen Arthur; Grenada, Keith Mitchell; St. Vincent and the Grenadines, Ralph Gonsalves; St. Kitts and Nevis, Denzil Douglas; and St. Lucia, Kenny D. Anthony. Also attending were IMF Managing Director Horst Köhler, who delivered the keynote address; Canadian International Development Agency Vice President Robert Anderson; Compton Bourne, President, Caribbean Development Bank; and Elena Martinez, Regional Director, United Nations Development Program (UNDP).

Building capacity, sharing responsibility

In the inaugural address, Köhler emphasized that the IMF is now giving high priority to technical assistance designed to bolster a country's capacity to develop and implement appropriate macroeconomic, fiscal, and monetary policies and to undertake administrative reforms.

Köhler also stressed that the IMF is particularly keen to see technical assistance take place in the context of "country ownership, prioritization, and an effective division of labor." CARTAC, he said, provides a good example of just how this can be done. He noted the "strong voice" that Caribbean governments will have, through their representation on the Center's steering committee, in formulating its technical assistance plans—thus ensuring that these plans reflect national priorities and maximize local commitment to their implementation. There will be a strict prioritization of projects, he added, and steady attention to the core areas of public expenditure management—tax/customs policy and administration; financial sector regulation and supervision, onshore and offshore; and economic and financial statistics—where improvements are needed to ensure sound and sustainable growth. CARTAC's regional focus will allow for optimal use of the area's expertise and ensure that technical assistance efforts stress coordination and avoid duplication and overlap.

Köhler also singled out Canada for particular mention, noting that it has made a valuable contribution in the design phase of the Center and was now generously contributing more than 50 percent of its funding.

Up and running

Immediately preceding the inaugural ceremonies, CARTAC's steering committee met for the first time under the chairmanship of Marion Williams, Governor of Barbados Central Bank. It agreed on a governance structure for CARTAC and on how to develop priorities over the coming months.

The center will provide technical assistance through a team of resident advisors, supplemented by short-term specialists. It will also feature a strong training component, offering in-country workshops, regional training courses, and hands-on professional attachments (internship programs for mid-level government officials).

CARTAC is organized as a UNDP regional program with the IMF as executing agency. Within this framework, the UNDP provides administrative and logistical support; the IMF manages CARTAC operations, provides its program coordinator (Nigel Bradshaw), and recruits and technically supervises its team of advisors

CARICOM

The Caribbean Community, or CARICOM, was created in 1973. Its member countries are Anguilla, Antigua and Barbuda, The Bahamas, Barbados, Belize, British Virgin Islands, Cayman Islands, Dominica, Grenada, Guyana, Haiti, Jamaica, Montserrat, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines, Suriname, Trinidad and Tobago, and the Turks and Caicos.

to ensure quality control and an adherence to international standards and best practices.

Apart from Canada and the IMF, CARTAC's main contributors are the Inter-American Development Bank, the World Bank, the United Kingdom, and the United States. The European Union has signaled its intention to provide financing starting in 2002, and the Caribbean Development Bank will be seconding a staff economist on a full-time basis. The participating countries contribute to the administrative costs of the center, and the host country, Barbados, furnishes office space and facilities. ■

Francisco Baker
IMF External Relations Department

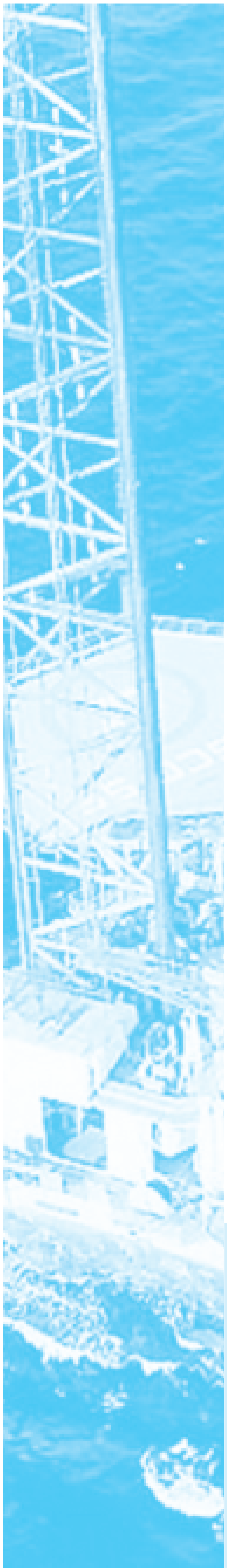
Stand-By, EFF, and PRGF arrangements as of October 31

Member	Date of arrangement	Expiration date	Amount approved	Undrawn balance
			(million SDRs)	
Stand-By arrangements				
Argentina[1]	March 10, 2000	March 9, 2003	16,936.80	7,180.49
Brazil[1]	September 14, 2001	December 13, 2002	12,144.40	8,468.82
Croatia	March 19, 2001	May 18, 2002	200.00	200.00
Ecuador	April 19, 2000	December 31, 2001	226.73	75.58
Gabon	October 23, 2000	April 22, 2002	92.58	79.36
Latvia	April 20, 2001	December 19, 2002	33.00	33.00
Lithuania	August 30, 2001	March 29, 2003	86.52	86.52
Panama	June 30, 2000	March 29, 2002	64.00	64.00
Peru	March 12, 2001	March 11, 2002	128.00	128.00
Romania	October 31, 2001	April 29, 2003	300.00	300.00
Serbia/Montenegro	June 11, 2001	March 31, 2002	200.00	100.00
Sri Lanka	April 20, 2001	June 19, 2002	200.00	96.65
Turkey[1]	December 22, 1999	December 21, 2002	15,038.40	5,702.36
Uruguay	May 31, 2000	March 31, 2002	150.00	150.00
Total			45,800.43	22,664.78
EFF arrangements				
Colombia	December 20, 1999	December 19, 2002	1,957.00	1,957.00
FYR Macedonia	November 29, 2000	November 28, 2003	24.12	22.97
Indonesia	February 4, 2000	December 31, 2002	3,638.00	2,477.20
Jordan	April 15, 1999	April 14, 2002	127.88	60.89
Kazakhstan	December 13, 1999	December 12, 2002	329.10	329.10
Ukraine	September 4, 1998	August 15, 2002	1,919.95	726.95
Total			7,996.05	5,574.11
PRGF arrangements				
Armenia	May 23, 2001	May 22, 2004	69.00	59.00
Azerbaijan	July 6, 2001	July 5, 2004	80.45	72.40
Benin	July 17, 2000	July 16, 2003	27.00	16.16
Bolivia	September 18, 1998	June 7, 2002	100.96	37.10
Burkina Faso	September 10, 1999	September 9, 2002	39.12	16.76
Cambodia	October 22, 1999	October 21, 2002	58.50	25.07
Cameroon	December 21, 2000	December 20, 2003	111.42	79.58
Central African Rep.	July 20, 1998	January 19, 2002	49.44	24.96
Chad	January 7, 2000	January 6, 2003	42.00	18.20
Djibouti	October 18, 1999	October 17, 2002	19.08	13.63
Ethiopia	March 22, 2001	March 21, 2004	86.90	52.14
FYR Macedonia	December 18, 2000	December 17, 2003	10.34	8.61
Gambia, The	June 29, 1998	December 31, 2001	20.61	3.44
Georgia	January 12, 2001	January 11, 2004	108.00	90.00
Ghana	May 3, 1999	May 2, 2002	228.80	105.17
Guinea	May 2, 2001	May 1, 2004	64.26	51.41
Guinea-Bissau	December 15, 2000	December 14, 2003	14.20	9.12
Guyana	July 15, 1998	December 31, 2001	53.76	28.88
Honduras	March 26, 1999	December 31, 2002	156.75	48.45
Kenya	August 4, 2000	August 3, 2003	190.00	156.40
Lao People's Dem.Rep.	April 25, 2001	April 24, 2004	31.70	27.17
Lesotho	March 9, 2001	March 8, 2004	24.50	17.50
Madagascar	March 1, 2001	February 29, 2004	79.43	68.08
Malawi	December 21, 2000	December 20, 2003	45.11	38.67
Mali	August 6, 1999	August 5, 2003	51.32	26.40
Mauritania	July 21, 1999	July 20, 2002	42.49	18.21
Moldova	December 21, 2000	December 20, 2003	110.88	92.40
Mongolia	September 28, 2001	September 27, 2004	28.49	24.42
Mozambique	June 28, 1999	June 27, 2002	87.20	25.20
Nicaragua	March 18, 1998	March 17, 2002	148.96	33.64
Niger	December 22, 2000	December 21, 2003	59.20	42.28
Rwanda	June 24, 1998	April 30, 2002	71.40	9.52
São Tomé and Príncipe	April 28, 2000	April 27, 2003	6.66	4.76
Senegal	April 20, 1998	April 19, 2002	107.01	19.54
Sierra Leone	September 26, 2001	September 25, 2004	130.84	84.00
Tajikistan	June 24, 1998	December 24, 2001	100.30	22.02
Tanzania	April 4, 2000	April 3, 2003	135.00	55.00
Vietnam	April 13, 2001	April 12, 2004	290.00	248.60
Zambia	March 25, 1999	March 28, 2003	254.45	199.51
Total			3,335.53	1,973.40
Grand total			57,132.01	30,212.29

[1]Includes amounts under Supplemental Reserve Facility.
EFF = Extended Fund Facility.
PRGF = Poverty Reduction and Growth Facility.
Figures may not add to totals owing to rounding.

Data: IMF Treasurer's Department

Members drawing on the IMF "purchase" other members' currencies, or SDRs, with an equivalent amount of their own currency.



Host of WTO meetings

Sluggish growth, declining oil reserves prompt Qatar to diversify economy away from oil

Qatar, a small open economy located in the Southern Arabian Gulf, has figured prominently in the news of late, having hosted a number of regional and international meetings, including the just-finished World Trade Organization (WTO) ministerial conference. Less publicized has been its dramatic turnaround in economic performance in the second half of the 1990s, when it was the fastest growing of the Gulf Cooperation Council (GCC) member countries (see box). In fact, in an environment of low inflation, real GDP growth averaged about 10 percent a year, sharply above the 3.5 percent average in the other GCC countries (see chart, page 383). What did Qatar do that enabled it to grow so much faster than its neighbors? It diversified its economy by developing its vast natural gas reserves, estimated to rank in size only behind those of Russia and Iran.

For Qatar, the 1980s and early 1990s were a period of lukewarm economic growth and rapidly declining oil reserves—projected to last only about 15 years, based on current production levels and proven reserves, which are small by regional standards.

Facing a clear need to revitalize growth and break away from its dependence on oil, Qatar turned to its large untapped reserves of natural gas and redefined its development strategy. The move paid off handsomely, resulting in rapid economic growth in the second half of the 1990s and higher per capita income. From an average of about $14,000 in nominal terms in the early 1990s, per capita GDP rose to more than $25,000 in 2000, one of the highest in the world.

Diversification was key

What did the strategy involve? First, policymakers focused on producing natural gas for power generation and export. Two liquefied natural gas (LNG) facilities were completed, one in late 1996 and the other in mid-1999. Between the two facilities, Qatar produced almost 11 million tons of LNG last year, most of which was sold to Asian countries through long-term contracts. Its total LNG export receipts rose from $0.5 billion in 1997 to over $3 billion in 2000 (nearly 36 percent of total exports). This increase, together with the strong recovery in global oil prices of the past few years, finally turned Qatar's external position positive in 1999.

Second, policymakers sharply expanded the output capacity of export-oriented, gas-intensive industries, such as petrochemicals, steel, and fertilizers. In fact, Qatar is now the largest Middle East producer of chemical fertilizers and some petrochemical products.

Third, in recent years, policymakers took a number of steps to boost tourism by expanding hotel capacity and the network of the national airline, as well as by promoting international gatherings in the country.

At the same time, Qatar was able to boost its crude oil output capacity, staying within the constraints imposed by membership in the Organization of the Petroleum Exporting Countries (OPEC). New discoveries, the authorities' adoption of modern recovery methods, and improved terms of exploration and production contracts with foreign oil companies enabled it to increase production by 70 percent from the mid-1990s to 2000, when it reached on average nearly 700,000 barrels a day.

Investor-friendly climate

Of course, this strategy benefited greatly from a series of broad structural reforms aimed at increasing the role of the private sector by privatizing public enterprises and creating a business-friendly regulatory environment. The first major sale of public assets took place at the end of 1998, when the government sold 45 percent of its share in the state telecommunication monopoly in the local stock market.

Major progress has already been made in restructuring the power sector, which will help Qatar meet the longer-term needs of its growing population and industrial development. The Qatar Electricity and Water Corporation (57 percent of which is owned by private investors) was recently created to take overall responsibility for generating, transmitting, and distributing these services. Plans have also advanced for the country's first independent power and water plant, to be built jointly with foreign investors, who will initially hold a majority equity stake. These developments are expected to bring new technology, improve efficiency, and reduce the need for government subsidies in the power sector.

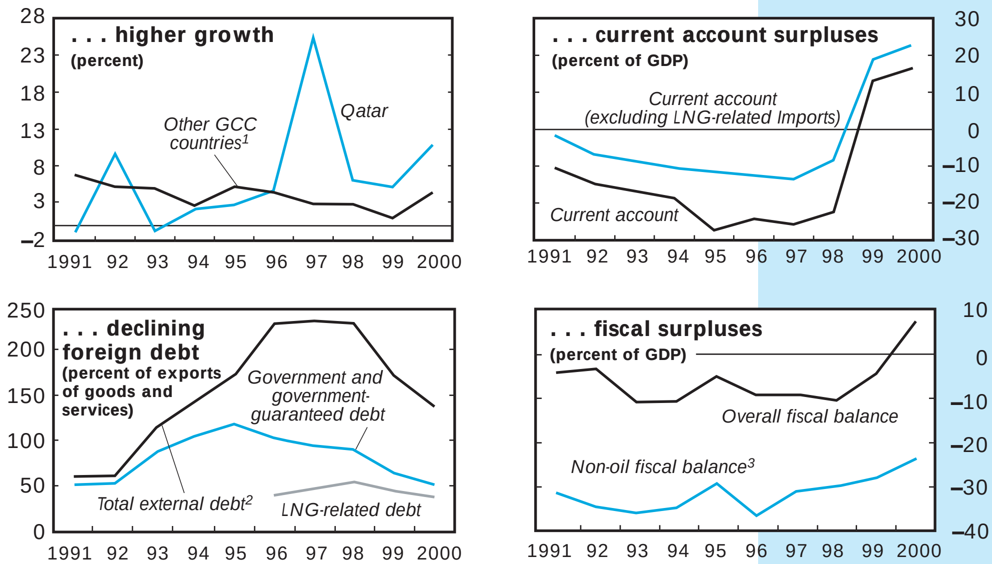
Gulf Cooperation Council (GCC)

The GCC was established in May 1981 to foster close economic cooperation and regional integration among its members—Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and the United Arab Emirates—through coordination of policies and harmonization of regulations in various fields. As a result, barriers to free movements of goods and services, national labor, and capital have been largely eliminated. Individuals and corporations of the GCC countries have been granted equal treatment for tax purposes, while all nationals have been allowed to invest in the stock markets of, and own real estate in, member countries. Also, GCC countries have agreed to adopt a common external tariff by March 2005.

The government has also taken several measures in recent years to promote Qatar's image as an investor-friendly country. These include revising the company and agency laws to foster domestic competition and improving the foreign investment law. Foreign investors are now allowed to lease land for up to 50 years and to own 100 percent (from a maximum previously of 49 percent) of companies in most sectors, including agriculture, manufacturing, health, education, and tourism, while the procedures for approving investments have been streamlined.

The financial and capital sectors have been strengthened in the past few years as well. In 1997, the Doha Securities Market was established, and, in 2000, the authorities finished liberalizing interest rates on deposits in local currency—a process begun two years earlier—leading to a sharp increase in time and saving deposits. Qatar Central Bank also raised the minimum capital adequacy ratio to 10 percent from the internationally suggested minimum of 8 percent while tightening nonperforming loan classification criteria and requiring banks to appoint independent auditors to assess provisioning levels.

Qatar's improved performance is evident in . . .



[1]Excluding Kuwait between 1990 and 1993.
[2]Excluding Banks.
[3]Defined as overall fiscal balance excluding oil revenue.

Data: Qatari authorities; and IMF staff estimates

Financing the strategy

Where did the money come from to finance this new development strategy? Qatar relied on foreign participation (through both direct investment and management) and borrowed heavily in international markets. As a result, Qatar's external debt is estimated to have peaked at close to 250 percent of exports of goods and services at the end of 1997 and 1998. In addition, initially, the external current account position took a hit as imports of LNG and other inputs needed for industrial projects mounted.

But by late 2000, debt declined to less than 150 percent, thanks to the rapid growth of export receipts from both higher oil and LNG volumes and improved terms of trade. Less than 40 percent of this debt is classified as government and government-guaranteed debt, and the debt service on the natural gas projects has been secured by the projects' export proceeds. To restructure part of the debt, in June 2000, the Qatari government issued the first 30-year sovereign bond among oil-exporting countries in the region. This bond's risk premium has been declining over much of 2001, reflecting growing international confidence in Qatar's economy and prospects.

At the same time, Qatar moved vigorously to hold the line on public expenditures. These grew by only 15 percent from fiscal year 1996/97 to 2000/01 (the fiscal year is April–March), even though oil revenue almost doubled over the same period and non-oil revenue grew through increases in fees and charges. Consequently, the overall fiscal balance switched from a deficit that peaked at over 10 percent of GDP in 1998/99 when global oil prices collapsed to a surplus estimated at about 7 percent of GDP in 2000/2001, with much of the recent windfall oil gains going toward building up government assets.

Largely because of the restrained expenditure growth, the non-oil fiscal balance in relation to GDP—a useful indicator of underlying fiscal trends in oil-exporting countries because it extrapolates from the fluctuations in oil revenue—has gradually improved since the mid-1990s. This implies that government consumption is well on track to be in line with Qatar's permanent income from its oil and gas wealth, ensuring intergenerational economic equity.

Challenges ahead

So what lies ahead for Qatar? The medium-term prospects remain favorable despite the uncertainty in world oil prices and a deteriorating global environment. Long-term contracts with Asian, Indian, and European firms mean that the volume of LNG exports will surge to over 20 million tons by 2005, toppling crude oil as the most important Qatari export and helping to sustain external current account surpluses in the coming years. The growth of other non-oil

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activities in the years ahead should remain strong as well, reflecting investment in the electricity and water sectors, rising output capacity in gas-based industries, and buoyant construction associated with a proposed regional gas pipeline network. On the fiscal front, successful reforms implemented over the past few years will help Qatar continue to record fiscal surpluses—albeit moderate ones—even if the global crude oil price drops below about $20 a barrel.

Even so, now is the time for Qatar to take critical steps to position itself to take fuller advantage of an integrated, though uncertain, global economy. These include

• maintaining an overall fiscal surplus as a precaution against likely continued dependence on volatile oil receipts for revenue over the foreseeable future.

• casting fiscal policy in a medium-term framework, based on a conservative long-run oil price for both oil revenue and expenditures while broadening the tax revenue base. It is encouraging that the central government's budget for this fiscal year is based on a relatively low price of $16.50 a barrel for Qatari crude oil and a 7 percent cut in spending with respect to actual outlays in the previous fiscal year—entirely accounted for by lower current expenditures. For the first time in over a decade, the budget thus aims for a small surplus equivalent to about 1 percent of GDP, with the non-oil fiscal balance showing further improvement.

• overhauling the welfare system—which has remained extremely generous despite the high per capita income and living standards achieved by Qatari nationals—to improve resource allocation and, in particular, reduce waste. This means changing to targeted subsidies from currently widespread free or subsidized access to government services and utilities.

• adopting a market-based industrial incentive structure from one based on subsidies and tax holidays.

Qatar has world's third largest reserves of natural gas.

• expanding the role of the private sector. Although public enterprises seem to be efficiently run and contribute to the budget, privatization will likely help broaden the range of activities in which the private sector can operate, promote the stock market, and attract foreign investors and expertise.

• relying on market-based mechanisms, such as providing appropriate training and education, curtailing the role of the government as employer of first resort, and improving job placement services, to enhance the employability of the local labor force without hindering competitiveness. These measures are vital, given that demographic dynamics point toward a rapidly growing indigenous labor force over the medium term.

• improving public access to updated economic and financial data on Qatar to reduce what the capital markets have labeled information risk and, therefore, the cost of external borrowing.

In sum, Qatar's development strategy has increased its ability to weather adverse oil shocks, while a conservative expenditure policy has made the budget more resilient to these shocks. In this context, continued fiscal discipline, a strong financial sector, a flexible labor market, and privatization remain key to sustaining the country's growth momentum, generating employment, and attracting foreign investment in the period ahead. ■

Ugo Fasano
IMF Middle Eastern Department

Selected IMF rates

Week beginning	SDR interest rate	Rate of remuneration	Rate of charge
November 12	2.26	2.26	2.66
November 19	2.33	2.33	2.74

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?2001).

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

Data: IMF Treasurer's Department