Communiqué

of the International Monetary and Financial Committee of the Board of Governors of the International Monetary Fund

Washington, D.C.

April 20, 2002

1. The International Monetary and Financial Committee held its fifth meeting in Washington, D.C. on April 20, 2002, under the Chairmanship of Mr. Gordon Brown, Chancellor of the Exchequer of the United Kingdom. The Committee welcomes the international community's decisive policy actions, especially following the tragic events of September 11, 2001, to maintain financial stability, restore the momentum of world economic growth, and reinvigorate the fight against poverty. We will also sustain our global action to combat money laundering and the financing of terrorism. Our meeting in Ottawa last November emphasized the importance of a collaborative approach for the IMF and its members. Going forward, we will continue to work together for sustained, broad-based growth, creating opportunities for productive employment, reducing vulnerabilities, opening up our economies for trade, and providing resources for durable poverty reduction.

The Global Economy

2. Since the Committee's last meeting, the prospects for the world economy have improved markedly. The challenge now is for governments to help foster the global recovery that is underway. This will require continued vigilance and a further strengthening of medium-term policy frameworks—both to improve prospects for sustainable growth and stability, and to reduce vulnerabilities. The Committee notes the uncertainties associated with the international security issues around the world. The Committee notes also the deteriorating situation in the Middle East. The Committee underscores the importance of stability in oil markets at prices reasonable for consumers and producers.

3. The advanced economies have a responsibility to promote a strong and sustained world economic recovery. While keeping inflation under control, monetary policies should remain broadly supportive of growth. In countries where the recovery is more advanced, consideration may need to be given in the months ahead to reversing earlier policy easing. Reforms should be pursued vigorously, with the aim of improving economic flexibility and resilience, contributing to high and sustainable world growth, and supporting the orderly reduction of persistent imbalances in the global economy. This process will be helped, in Japan, by decisive action to reform the banking and corporate sectors, along with monetary easing to help end deflation; in Europe, by continued progress with wide-ranging reforms to enhance its growth potential; and in the United States, by focusing on the efforts needed over the medium term to preserve fiscal balance.

4. The recovery in industrial countries will contribute to supporting activity in emerging market and developing countries. The Committee is encouraged that many emerging market economies have become more resilient by the adoption of sound economic policies—including more sustainable exchange rate regimes. It will nevertheless remain crucial to further strengthen fiscal positions, and to press ahead with corporate, financial, and institutional reforms to support the emerging recovery and attract foreign direct investment. Improved differentiation and risk assessments by markets have served to limit so far the contagion effects of the Argentine crisis. The Committee acknowledges the steps being taken by Argentina to address its difficult economic situation, and urges the authorities, in cooperation with the Fund, to move quickly to reach agreement on a sustainable economic program that could receive the support of the international financial institutions and provide the basis for the reestablishment of stability and growth.

5. The Committee strongly welcomes the commitment by the international community, at the UN Conference in Monterrey, to improve living standards and reduce poverty through sound policies and higher and more effective aid. It fully supports the New Partnership for Africa's Development and its call for strong domestic ownership, sound policies, strengthened institutions, and improved governance. The Committee welcomes recent announcements of increased and more effective aid, and urges further progress. The Monterrey Consensus will constitute an important input to the World Summit on Sustainable Development in Johannesburg. The Committee also welcomes the new initiative to enhance growth and reduce poverty in low-income CIS countries.

6. The Committee stresses the vital importance of more open trade for a durable economic recovery, and for sustained, broad-based growth in the developing countries in particular. It urges all countries to resist protectionist pressures and to continue to lower trade barriers, concluding the Doha trade round successfully and in a timely manner. Enlarging market access for developing countries and phasing out trade distorting subsidies will benefit both developed and developing countries. The Committee welcomes the commitment, reiterated at Monterrey, to work toward the objective of duty- and quota-free market access to the exports of least-developed countries. It also notes the potential for increased opportunities from lowering trade barriers among developing countries.

Strengthening Crisis Prevention and Resolution

7. Surveillance remains central to the Fund's mandate to promote sound economic growth and financial stability, and to help prevent crises. The Committee is encouraged by the substantial progress in recent years to adapt and broaden the coverage of surveillance in response to a changing global environment, while focusing on issues central to economic and financial stability.

8. The Committee calls on the Fund to spare no effort in enhancing the high quality of its policy advice, and on members to implement this advice. Surveillance will be further enhanced by:

strengthened assessments of vulnerabilities, with particular attention to debt sustainability and the private sector's balance sheet exposure;

focusing on the global impact of the policies, including trade policies, of the largest economies;

more candid and comprehensive assessments of exchange arrangements and exchange rates;

expansion of substantive financial sector surveillance to the entire membership, including to offshore financial centers;

strengthened coverage of relevant structural and institutional issues;

on issues outside the Fund's core expertise, more effective use of the expertise of appropriate outside institutions, in particular the World Bank;

further integration of multilateral, regional, and country surveillance; and

deeper coverage of international capital markets.

The Committee notes that the process of surveillance should cover effective and timely reassessments of economic conditions and policies. In program countries, this may require a fresh perspective and appropriate distance from day-to-day program implementation issues.

9. The Committee encourages the Fund to press ahead with the range of recent initiatives designed to enhance the effectiveness of surveillance and crisis prevention. These include the Financial Sector Assessment Program (FSAP) and policies on transparency, including encouraging publication of Article IV and other Fund reports. Further work on standards and codes is a crucial item in the forward agenda to strengthen their relevance and contribution to Fund surveillance, and to ensure that countries have adequate access to technical assistance. The Committee encourages eligible countries to consider applying for the Contingent Credit Line (CCL), and looks forward to a review.

10. The Committee endorses the Fund's work program to strengthen the existing Prague framework for crisis resolution, in particular to provide members and markets with greater clarity and predictability about the decisions the Fund will take in a crisis. This will involve:

improving debt sustainability assessments;

clarifying the policy on access to Fund resources for members facing financial crises—with access beyond normal limits requiring more substantial justification, and recognizing that some of these members' quotas do not adequately reflect their potential financing needs;

strengthening the tools for securing private sector involvement; and

examining a more orderly and transparent framework for addressing the exceptional cases in which a sovereign needs to restructure an unsustainable debt, as well as clarifying the conditions under which the Fund would be prepared to lend into arrears.

The Committee welcomes the consideration of innovative proposals to improve the process of sovereign debt restructuring to help close a gap in the current framework. It encourages the Fund to continue to examine the legal, institutional, and procedural aspects of two approaches, which could be complementary and self-reinforcing: a statutory approach, which would enable a sovereign debtor and a super-majority of its creditors to reach an agreement binding all creditors; and an approach, based on contract, which would incorporate comprehensive restructuring clauses in debt instruments. The Committee looks forward to reviewing progress in this area at its next meeting.

The Fund's Role in Low-Income Countries

11. The Committee fully endorses the Monterrey Consensus, which has reaffirmed that sound economic policies and institutions, together with strong, broad-ranging international support, are the twin pillars on which to build enduring poverty reduction. It encourages the Fund to work closely with the UN, the World Bank, the regional development banks, and bilateral donors in developing a comprehensive and transparent system to monitor progress toward the Millennium Development Goals.

12. The Committee welcomes the outcome of the recent reviews of the Fund's Poverty Reduction and Growth Facility (PRGF) and of the Poverty Reduction Strategy Paper (PRSP) approach. The PRSP process should continue to be nurtured as the suitable framework for fostering the efforts of low-income countries and their international partners to achieve poverty reduction and higher growth. The substantial progress under PRGF-supported programs in implementing the PRSP approach will be further enhanced by better identifying the sources of sustained growth, strengthening public expenditure management, and using poverty and social impact analysis more systematically. The Committee encourages the Fund and the Bank to continue their collaboration on each of these issues and looks forward to reviewing progress at its next meeting. Capacity building will remain a potent vehicle for ensuring ownership and enhancing the implementation of effective poverty reduction strategies, and the Committee looks forward to the review of technical assistance leading to its increased effectiveness. The Committee welcomes, in particular, the African Regional Technical Assistance Centers (AFRITACs), whose establishment will support the New Partnership for Africa's Development, and looks forward to the timely financing of this initiative.

13. The recovery of low-income countries that have been affected by the recent economic slowdown and commodity price shocks will continue to require particular attention. The Committee supports the Fund's continued readiness to respond flexibly and proactively to the financing needs of low-income countries, including by augmenting PRGF financing where necessary. It recognizes that there may be a need to consider mobilizing new PRGF resources if the high demand for PRGF financing continues. While the Committee is encouraged by the progress with the implementation of the HIPC Initiative, it notes that, in a number of cases, debt sustainability remains an issue and calls on the IMF and World Bank to review the situation. It urges eligible countries to step up their reform efforts to reach their decision and completion points, noting, in this context, the flexibility embedded in the HIPC Initiative framework to accommodate the special circumstances of countries emerging from conflict. The Committee notes the application within the current guidelines of the topping up feature designed to help countries cope with exceptional exogenous shocks. It calls for further efforts to enhance debt management in HIPCs and continued close monitoring of their debt sustainability as they move toward, and beyond, their completion points.

Streamlining Conditionality and Enhancing Ownership

14. The Committee welcomes the initial progress made toward enhancing the effectiveness of Fund-supported programs through streamlined and focused conditionality and strong national ownership of economic reforms. It urges further progress, in cooperation with the Bank, and looks forward to a report on these issues, including on the Fund's consideration of new conditionality guidelines, at its next meeting.

Combating Money Laundering and the Financing of Terrorism

15. The Committee underscores that international efforts to counter abuse of the international financial system to finance terrorism and launder the proceeds of illegal activities remain a priority. It is encouraged by the response by many countries to its call last November for all countries to ratify and implement fully the UN instruments to counter terrorism financing, to freeze terrorist assets, and to establish financial intelligence units and ensure the sharing of information. The Committee urges countries that have not as yet done so to fully implement and comply with these instruments. It also welcomes the substantial progress made by the Fund, in close collaboration with the World Bank, in implementing all elements of its action plan to intensify the work on anti-money laundering and combating the financing of terrorism (AML/CFT). The Committee notes in particular the good start made in assessing gaps in national AML/CFT regimes, and fully supports the provision of technical assistance to help countries identify and address such gaps.

16. While reiterating the responsibility of national authorities for combating money laundering and the financing of terrorism, the Committee stresses that success will critically depend on continued vigilance and timely action at the global level. It calls on the Fund to make further progress on all elements of its work program, consistent with its mandate and expertise. In particular, efforts should now be focused on completing the comprehensive AML/CFT methodology, based on a global standard covering the Financial Action Task Force (FATF) recommendations, and the development of assessment procedures compatible with the uniform, voluntary, and cooperative nature of the ROSC process. Enhancing the delivery of technical assistance on AML/CFT will also be crucial. The Committee urges the Fund, in cooperating with other international organizations and donor countries, to identify and respond to needs for technical assistance. It looks forward to receiving a full report on progress in this area at its next meeting. The Committee calls on members to share information on their own actions in this field.

Other Issues

17. The Committee notes that the Twelfth General Review of IMF Quotas has commenced. Quotas should reflect developments in the international economy. The Committee recommends an early implementation of the Fourth Amendment.

18. The Committee welcomes the progress report on the Independent Evaluation Office, and looks forward to receiving regular updates on its activities.

Next Meeting

19. The next meeting of the IMFC will be held in Washington, D.C. on September 28, 2002.

Chairman

Gordon Brown

Managing Director

Horst Köhler

Members or Alternates

Ibrahim A. Al-Assaf, Minister of Finance and National Economy, Saudi Arabia

Sir Edward George, Governor, Bank of England

(Alternate for Gordon Brown, Chancellor of the Exchequer, United Kingdom)

Ian Campbell, Parliamentary Secretary to the Treasurer, Australia

(Alternate for Peter Costello, Treasurer, Australia)

Dai Xianglong, Governor, People's Bank of China)

Rodrigo de Rato y Figaredo, Second Vice President and Minister of Economy, Spain

Hans Eichel, Federal Minister of Finance, Germany

Nicolás Eyzaguirre, Minister of Finance, Chile

Laurent Fabius, Minister of Economy, Finance and Industry, France

Geir H. Haarde, Minister of Finance, Iceland

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

(Alternate for Mohammed K. Khirbash, Minister of State for Finance and

Industry, United Arab Emirates)

Aleksei Kudrin, Deputy Chairman of the Government and

Minister of Finance, Russian Federation

Mohammed Laksaci, Governor, Banque d'Algérie

Pedro Sampaio Malan, Minister of Finance, Brazil

Paul Martin, Minister of Finance, Canada

Ms. Linah K. Mohohlo, Governor, Bank of Botswana

Paul H. O'Neill, Secretary of the Treasury, United States

Didier Reynders, Minister of Finance, Belgium

Agus Haryanto, Secretary General, Ministry of Finance

(Alternate for Syahril Sabirin, Governor, Bank of Indonesia)

Masajuro Shiokawa, Minister of Finance, Japan

Yashwant Sinha, Minister of Finance, India

Paul Toungui, Minister of State, Minister of Finance, Economy, Budget and Privatization, Gabon

Giulio Tremonti, Minister of the Economy and Finance, Italy

Kaspar Villiger, President of the Swiss Confederation and Minister of Finance, Switzerland

A.H.E.M. Wellink, President, De Nederlandsche Bank N.V.

(Alternate for Gerrit Zalm, Minister of Finance, Netherlands)

Observers

Yilmaz Akyuz, Director, Division on Globalization and Development Strategies, United Nations Conference on Trade and Development (UNCTAD)

Andrew D. Crockett, Chairman, Financial Stability Forum (FSF)

Willem F. Duisenberg, President, European Central Bank (ECB)

André Icard, Deputy General Manager, Bank for International Settlements (BIS)

Donald J. Johnston, Secretary-General, Organisation for Economic Cooperation and Development (OECD)

Ian Kinniburgh, Director, Development Policy Analysis Division, Department of Economic and Social Affairs, United Nations (UN)

Eddy Lee, Director, International Policy Group, International Labour Organisation (ILO)

Trevor A. Manuel, Chairman, Joint Development Committee

Ms. Karen McCusker, Counsellor, World Trade Organization (WTO)

Pedro Solbes Mira, Commissioner for Economic and Monetary Affairs, European Commission

James D. Wolfensohn, President, World Bank