STATEMENT BY THE ACTING MANAGING DIRECTOR OF THE IMF

Attached for information of the Members of the Development Committee is a Statement by the Acting Managing Director of the IMF, Mr. Stanley Fischer, for the Committee’s April 17, 2000 meeting.
Development Committee: The Acting Managing Director’s Written Statement

1. Since the 1999 Annual Meetings, the IMF has taken important further steps in implementing the agenda to strengthen the international financial architecture, to safeguard the benefits of globalization and to enhance the effort to eradicate poverty, especially in low-income countries. We have made progress in fostering greater transparency, better reporting, and best practices in markets and institutions at the national and international level. Working in close collaboration with the Bank and other external partners, we have made important progress in integrating country-owned poverty reduction strategies with our macroeconomic policy advice and financial assistance for low-income countries, including through enhanced debt relief.

2. The world economy recovered rapidly in 1999, and prospects for even stronger growth in 2000 are good. Global economic expansion has been fuelled by the remarkable strength in the United States’ economy and the recovery in Western Europe, which has supported the faster-than-expected recoveries of crisis-affected countries in Asia and Latin America, and other emerging market regions. In many of the emerging market countries, the determined implementation of adjustment and structural reform policies, with the support of the international community, has been important. The recent increases in oil prices have contributed to the stronger economic performance for oil producers in Africa and the Middle East, as well as Russia. In Africa, growth is projected to increase in many countries, supported by the recovery in Europe, by progress with macroeconomic stabilization and structural reforms, and in some countries by rising non-oil commodity prices.

3. To ensure that the global recovery is not disrupted, countries will need to respond quickly to widening economic and financial imbalances. Industrial countries should seek to achieve a more balanced pattern of growth, with macroeconomic policies supporting a sustained pick-up in domestic private sector demand in Europe and Japan, together with some slowing of growth in the United States. In Latin American countries, policymakers need to further reduce the remaining external vulnerabilities and maintain the confidence of international investors. For this purpose, countries need to implement measures to achieve and maintain low levels of inflation, as well as to support further fiscal consolidation and structural reforms. In Russia, a firm and wide-ranging reform effort, especially to strengthen the institutional foundations of a market economy, is needed to improve prospects for investment and growth. In Asian emerging market countries, macroeconomic policies should be focused on reducing the risk of overheating as the recovery in growth advances; moreover, further progress in structural reforms is needed, especially in the financial and corporate sectors. In Africa, reform efforts need to be expanded further to establish the foundations of broader-based growth—fuelled by the private sector—that offer the opportunity for alleviating poverty.

4. As we—the international community, individual countries, and the private sector—reap the benefits of the broad-based recovery, we must not relax our efforts to strengthen the international financial system; to help countries, especially the poorer ones, to participate in and benefit from the opportunities for growth that the global economy offers; to improve the effectiveness of our efforts to eradicate poverty; and to
push forward the enhanced initiative for debt relief. At the national level, there is a need to press ahead with policies to promote open and well-functioning markets, sound institutions, good governance, and macroeconomic stability. At the international level, we must support the efforts of developing countries to build their capacity to formulate and implement needed reforms; and improve the transparency of the world trading system and access to national markets. We must also continue working to arrest the devastation to human life and the economic waste caused by HIV/AIDS, other diseases, and armed conflict. Only then will it be possible to achieve better living conditions and higher growth for all countries, and make significant progress toward the International Development Goals.

**Strengthening the International Financial System**

5. Together with other international organizations, national agencies, and the private sector, the Fund has been actively pursuing efforts to strengthen the architecture of the international financial system to help prevent crises and to speed their resolution. Many initiatives have already been implemented or are currently being made operational. In several areas—such as enhancing transparency and accountability, assessing standards and codes, and identifying financial sector vulnerabilities—programs are well underway. Further work on the development and dissemination of data reporting standards is in progress, and implementation is being advanced through the provision of technical assistance. Also, better analytical tools and data for assessing macroeconomic and financial vulnerability are being developed. In other areas—including exchange rate systems—further progress has also been made and discussions will continue.

6. Many of these initiatives come together through the Fund’s surveillance activities which seek, *inter alia*, to promote external sustainability, financial stability, and the conditions for a more resilient international financial system.¹

- **Transparency and accountability.** Efforts to increase the transparency of members’ policies and of Fund policy advice have progressed significantly, with a majority of the membership agreeing to the release of Public Information Notices after Article IV consultations and Letters of Intent and Memorandum of Economic and Financial Policies, as well as the issuance of the Chairman’s Statement following Executive Board discussions on the use of Fund resources. Furthermore, around one-third of the membership is participating in the pilot program for the release of Article IV staff reports. Also, we now regularly publish information on the IMF’s liquidity position, members’ accounts with the IMF, and the IMF’s quarterly financial transactions plan.

- **Standards and their assessment.** With the development of standards in areas of direct operational concern to the IMF—data dissemination, transparency of fiscal,

¹ Developments in these areas and the IMF’s work on strengthening the international financial system are described in more detail in my report to the International Monetary and Financial Committee on Progress in Strengthening the Architecture of the International Financial System.
monetary and financial policies, and banking supervision—efforts now are increasingly focussed on the dissemination and implementation of these standards, including through the provision of technical assistance. The Special Data Dissemination Standards (SDDS) has been further strengthened, and work is proceeding on implementation of the Code of Good Practices on Transparency in Monetary and Financial Policies and the Code of Good Practices on Fiscal Transparency. Significant progress has been made in preparing assessments of members’ observance of standards through the Reports on the Observance of Standards and Codes (ROSC). A shared ownership approach to the preparation of ROSCs has been endorsed, whereby different international institutions take primary responsibility for preparing assessments in different areas, in line with their mandates and expertise.

- **Strengthening financial systems.** The joint World Bank-Fund pilot Financial Sector Assessment Program (FSAP), which seeks to help assess strengths and vulnerabilities of financial sectors and their interlinkages with macroeconomic policies, is now well under way. This program is seen as a key element in strengthening Fund’s surveillance and is to be expanded in the coming year. In collaboration with other international organizations, the Fund is also developing macro-prudential indicators of financial sector vulnerability. The Fund will also be considering the recommendations of the recent reports of the Financial Stability Forum Working Groups.

- **Assessing external vulnerability.** The IMF and World Bank are collaborating on a series of projects designed to improve external liability management. Work is underway on debt and reserve-related indicators of vulnerability, sovereign debt management and the development of domestic capital markets. This work will be synthesized in a paper on guidelines for sovereign debt management to be considered this summer. We are also working on structural and institutional factors in foreign exchange reserve management, high-frequency monitoring of external liabilities of domestic banking systems, and early warning systems for external crises.

- **Private sector involvement.** There is now general recognition that the involvement of the private sector is critical in forestalling and resolving financial crises, and that prevention remains the first line of defense. The Fund strongly encourages members to maintain lines of communication with market participants both in good times and when possible difficulties in their economic situations emerge. The IMF’s Executive Board has continued its work toward an operational framework for securing private sector involvement in the resolution of crises, building on the principles and framework articulated by G-7 finance ministers at the 1999 Cologne Economic Summit. Flexibility will be required in handling individual cases. The financing of the adjustment program of a member coping with crisis would normally be based on the expectation that private sector exposure to the country would either be maintained above some level, or begin to be rebuilt soon after the emergence of a crisis. Private sector involvement could be ensured primarily through reliance on the IMF’s traditional catalytic role if the member’s financing requirements are moderate, or if
they are large but prospects are good for rapidly regaining market access on appropriate terms. More concerted forms of involvement could be required if financing requirements are large and the member has poor prospects for regaining market access in the near future, or has an unsustainable medium-term debt burden.

- **IMF Facilities.** The IMF has initiated a fundamental review of the design and operation of its non-concessional financing facilities to ensure that they continue to meet our members’ needs in a changing world economy. This effort has produced a significant streamlining through the elimination of four facilities in the last few months. The Board will be exploring potential modifications to other facilities, in particular, to encourage greater efforts at crisis prevention by members and to find the right balance of incentives and disincentives regarding the use of Fund resources in the context of member countries’ access to private financing.

## II. Trade, Development and Poverty Reduction

7. The expansion of trade in recent decades has been a central element of economic globalization and has facilitated significant advances in economic growth and human prosperity. To ensure that trade continues to fuel world economic growth and contribute to poverty reduction, and that all countries participate and enjoy its benefits, further trade reform is critical.2 Although some developing countries have made significant progress in liberalizing their trade regimes, many, especially the poorest, have not as yet succeeded in participating sufficiently in global trade. This reflects complex and profound weaknesses in economic structure, initial conditions, policies, and institutions of these countries. Protection by developed countries against imports from developing countries, and the anti-export bias of trade policies in some developing countries, have remained an obstacle. Thus, in order to trigger rapid growth and better integrate poor countries into the world trade system, trade reforms that are coordinated with a broad range of related reform initiatives are needed.

- Priorities for further trade reform include the liberalization of agriculture, on which the poorer developing countries are heavily dependent. In addition, the liberalization of imports of manufactures represents a potential opportunity for the poorest countries to diversify their export bases and is of growing importance for the exports of many other developing countries. An accelerated abolition of quotas against developing country exports of textiles and clothing would go a long way toward stimulating exports from these countries. To address the special needs of the poorest countries, the international community should also consider granting duty and quota-free market access for their exports. Enhanced market access would also complement the initiative on debt relief to support poverty reduction and should be extended to all heavily indebted poor countries (HIPCs).

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2 A more detailed discussion of trade reform and the role of the Fund and Bank is contained in the joint Bank-Fund Development Committee paper on Trade, Development and Poverty Reduction.
• Developing countries should press ahead with further liberalization of their trade regimes, and implementation of appropriate exchange rate policies, to promote an outward-oriented pattern of growth and help ensure their fuller integration into the global trading system.

• To effectively promote growth and poverty reduction, trade policy must be a part of a comprehensive strategy that emphasizes sound macroeconomic management, investment in infrastructure and human capital, and legal and institutional reform. The Fund has long supported developing countries’ efforts to implement such a strategy to help create an environment in which private investment and production can flourish. At the same time, we need to cushion the adverse effects of essential reforms on vulnerable and needy groups, including through social safety nets. More recently, the Fund has been working closely with the World Bank, the WTO, and other international institutions to strengthen policy coordination. The Fund will continue to provide technical assistance to developing countries to help them to participate more fully in the global economy.

III. Implementing Strategies for Poverty Alleviation and Social Development

8. Poverty today remains far too prevalent, and the human suffering and squandering of human resources it causes is unacceptable and abhorrent. Recognizing this, the global community has made poverty eradication a high priority. Since the Development Committee last met, we have moved rapidly, in collaboration with the World Bank, to establish an operational framework and implement the new poverty reduction strategy approach as the foundation for IMF and World Bank concessional lending. This has entailed significant innovative changes in the Fund’s procedures. Simultaneously, to strengthen the link between debt relief and poverty reduction, we are pressing ahead to implement the enhanced HIPC Initiative. Our goal is to foster a comprehensive, country-led effort to sharpen the poverty focus and effectiveness of development strategies in low-income countries, with support for those strategies by external partners. For this purpose, we have replaced the ESAF with the Poverty Reduction and Growth Facility (PRGF), under which programs are designed to integrate anti-poverty measures into a consistent macroeconomic framework aimed at rapid, sustainable, and inclusive growth. But the best designed country reform programs are not viable unless owned by the countries. Greater participation of involved stakeholders including parliaments, civil society, NGOs, donors, and multilateral institutions is critical to the development of country-owned poverty reduction strategies. The Fund’s role in the process of poverty reduction is to ensure that sound, growth-oriented macroeconomic policies and related structural reforms, fully consistent with structural and anti-poverty policies supported by the Bank and other donors, are in place to set the stage for higher growth, and the creation of income-earning opportunities. We look to the World Bank and other international agencies to assist countries in the design of effective social policies and sectoral reform within the comprehensive strategy to eradicate poverty.

9. The new approach is based on countries’ own poverty reduction strategies and embodied in Poverty Reduction Strategy Papers (PRSPs). The PRSP will provide the
context for PRGF and IDA concessional assistance to low-income countries. Implementation of the new approach is underway. PRSPs will take time—possibly up to two years—for countries to prepare in an open participatory process. At the same time, we need to avoid delays in permitting countries to progress under the enhanced HIPC Initiative and have access to PRGF and IDA assistance. For this purpose, countries may initially prepare a simpler Interim PRSP, as a stepping stone to the PRSP. Interim PRSPs have been completed by Bolivia, Honduras, Mozambique, and Tanzania, and Uganda has prepared a full-fledged PRSP. Several more countries (including Sao Tome and Principe, and Senegal) are expected to present their documents to the Fund and Bank Executive Boards very soon. While countries themselves will determine when their Interim PRSPs and PRSPs are prepared, we are expecting that some 25-35 could be finished during 2000.

10. We have also made considerable progress recently in implementing the enhanced HIPC Initiative, which provides the framework for faster, broader, and deeper debt relief. Since the 1999 Annual Meetings, five countries have reached their decision points under the enhanced framework. We urge all potentially eligible HIPCs to move forward as quickly as possible in their programs supported by the PRGF and in formulating their PRSPs so that they can qualify for debt relief. We welcome the assurances by many bilateral creditors that they will cancel debts owned to them by HIPCs, and that this assistance will be additional to the debt relief to be provided under the enhanced HIPC Initiative.

11. To assure that countries’ debt is reduced to sustainable levels that would be conducive to strong and lasting growth in eligible countries, the full participation of all creditors—both multilateral and bilateral—in the enhanced HIPC Initiative is essential. I am pleased to report that we have made good progress on the funding of the IMF’s participation in the enhanced HIPC Initiative and the continuation of PRGF operations, and we are continuing efforts to complete the full funding of the IMF’s contribution. I urge creditors to make the effort needed to secure the resources required to fully finance the debt initiative. Moreover, to assure that HIPCs benefit from a greater transfer of external resources targeted at poverty alleviation, assistance under the HIPC Initiative needs to be fully additional to existing flows of development assistance.

12. The new approach represents a major challenge for all participants and we will all have to learn from experience and adapt our operations accordingly. As we press ahead with the new approach, we must seek to ensure countries’ ownership of their programs of growth and poverty reduction. It will also be important to promote good governance of the management of public resources to help ensure the effective implementation of poverty reduction policies and use of donor assistance. We will do our utmost to expedite progress. Indeed, the Fund and Bank managements are setting up a joint HIPC and PRSP implementation committee that will help monitor progress and help resolve impediments to timely action. Industrial countries can also make an important contribution by supporting developing countries’ capacity building efforts and by stepping up the level of official development assistance.
13. Finally, the international community must address the human toll of HIV/AIDS and armed conflict to ensure that all can benefit from a better and more prosperous life. I therefore welcome the Bank’s paper before the Development Committee on tackling HIV/AIDS, that offers a way forward to decisively combat this virulent disease, and sets out a plan of action for afflicted countries and the international community. To help assure the security and peace that is needed for human development and well-being, renewed efforts are needed to increase the transparency of military spending and arms transfers, and to limit the transfer of arms.

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14. The return of relative stability in financial markets and the recovery in world economic growth offer the opportunity to give greater attention to strengthening the foundations for rapid, sustained, and inclusive high-quality growth, as well as significant progress towards reaching the International Development Goals and eradicating poverty. Cooperation and responsibility are essential to achieve our common goal of worldwide economic prosperity and improved living conditions for all. At the Fund, we will continue to strengthen our role in this endeavor, in partnership with the World Bank and other international institutions, national authorities, and the private sector.