

**ANNUAL REPORT TO PARLIAMENT
ON
UK OPERATIONS AT
THE INTERNATIONAL MONETARY FUND**

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30 October 1998**

I. Introduction: the Role of the IMF

As a major trading nation, and one of the world's largest financial centres, the UK has a substantial stake in a strong international monetary system that promotes the free and orderly movement of goods, services and financial assets. The IMF plays a key role in promoting a sound world financial system and broad-based economic growth through assistance to countries experiencing unsustainable external imbalances and related economic difficulties.

The IMF:

- C Oversees the international monetary system and promotes international monetary cooperation;
- C Promotes exchange rate stability and orderly exchange relations among member countries;
- C Provides short to medium-term financial support to members facing balance of payments difficulties;
- C Facilitates the expansion and balanced growth of international trade;
- C Draws its financial resources primarily from the quota subscriptions of its members.

II. The UK's Current Priorities at the IMF

The UK is playing a leading role in the reform of the international financial architecture. Through work in international fora such as the G7, IMF and World Bank.

New international rules are being designed to help produce an environment in which financial markets function more effectively and so promote stability and sustainable growth. This should reduce volatility and the risk of future failures, to produce international monetary stability which is a vital element of a stable international financial system. When failures do occur, the financial system should be more robust to their risks. So economies at all stages of development will have the opportunity to capture the full benefits of global markets and capital flows.

Discussions have continued over the last year on a number of initiatives, many of which were advanced by G7 Finance Ministers and Central Bank Governors, under the chairmanship of the UK, in their declaration of 30 October 1998 (annex 3). The key elements of this agenda, which the UK has been actively promoting over the last year, include:

- S delivering transparency and accountability by establishing a framework of internationally agreed codes and standards. The Codes cover transparency of fiscal policy, financial and monetary policy, corporate governance, best practice for financial institutions and regulators, and accounting standards;
- S establishing a new framework for crisis prevention and crisis resolution based on partnership between public and private sectors;
- S identifying measures to improve the effectiveness and

accountability of the IMF, including enhancing the transparency of the Fund's operations, policies, and procedures;

- S ensuring that the Fund is able to play a constructive role in the process of orderly opening of countries' capital accounts;
- S encouraging the Fund to make greater efforts to help strengthen financial sectors, particularly in emerging markets, and to improve co-operation between the Fund, the World Bank and key regulatory authorities on financial sector issues;
- S increasing the attention given to the effect of economic adjustment on the most vulnerable groups in society, developing principles of best practice in social policy, and encouraging reforms to ensure that the benefits and opportunities of the global economy can be shared by all and specifically by relieving the debt burden of Heavily Indebted Poor Countries (HIPC);
- S strengthening the IMF's ability to deal with contagion through the establishment of a new IMF facility which would provide a contingent short-term line of credit for countries pursuing strong IMF-approved policies¹;
- S ensuring that the Fund has adequate resources for its regular lending operations through activation of the Eleventh General Review of Quotas, and that the Fund has adequate liquidity to respond to financial emergencies through approval of the New Arrangements to Borrow, which represent a doubling of the resources available to the IMF under the General Arrangements to Borrow.

¹the Contingent Credit Line - see section VII

III. IMF Programmes and Surveillance

Over the past year, demand for IMF financing has continued to be heavy. During the financial year to April 1999, the IMF committed resources totalling around \$43 billion under new Fund programmes. The largest new commitments over this period were for Brazil (\$18 billion) and Russia (\$11.5 billion). At the end of the financial year, 9 Stand-By Arrangements, 12 Extended Arrangements, and 35 ESAF arrangements were in effect with member countries. Net of repayments of previous drawings, outstanding IMF credit reached around \$90 billion at the end of the financial year, up from \$75 billion a year earlier.

The IMF has continued to work with other members of the international community, to try to avert or contain financial crises in emerging market economies. This has remained the main focus of the IMF's efforts.

The financial market turmoil, first evident in Asia in the summer of 1997, intensified sharply following Russia's decision in August 1998 to devalue the rouble and impose a forced restructuring of domestic government debt. This development, and to a lesser extent Malaysia's decision to impose capital controls which followed shortly thereafter, were defining events that led both to a dramatic reassessment of the risks associated with holding emerging market financial instruments, and to a general decline in risk tolerance among mature market investors.

Investor concerns that a sustained period of illiquidity could adversely affect emerging market economies with large domestic and external financing needs, led to substantial capital outflows and sustained

pressures on foreign exchange and domestic money markets in a number of countries, particularly in Latin America. The country most affected was Brazil, where pressures in domestic debt and foreign exchange markets began to build during the second half of August 1998.

By the end of 1998, a measure of calm had been restored to financial markets, owing in part to policy programmes supported by the IMF, and by the international community more generally, and to a lowering of official interest rates in many industrial countries. And in 1999, Asia crisis countries recovered far more strongly than had been forecast reflecting progress with structural reforms under ongoing IMF-led economic recovery programmes, with those countries which have made the most progress with reform seeing the strongest recoveries - particularly Korea. But, as the cases of both Russia and Brazil have demonstrated, financial assistance from the IMF can only be effective if the country involved demonstrates the commitment to implement necessary reform measures.

In September 1998, Brazil announced several measures to reduce a sizeable fiscal deficit, and increased interest rates to over 40 per cent. Pressure on the exchange rate eased, but the measures did not provide sufficient relief. The subsequent IMF-led international financial package announced in November 1998 resulted in commitments of balance of payments support totalling \$41½ billion, toward which the IMF committed around \$18 billion over three years.

The UK committed \$1.25 billion as part of a package of bilateral loans coordinated through the Bank of International Settlements. The UK also contributed through the activation of the New Arrangements to Borrow (NAB).

Initially, financial pressures abated, but capital outflows intensified in January and the government was forced to float the *real*.

The IMF-supported economic programme was revised and then approved in March. Since then, the *real* has stabilised and the programme has remained broadly on track. Brazil has now repaid 30 per cent of the UK bilateral loan and rolled over the remaining 70 per cent.

Russia's IMF programme, agreed in July 1998 and totalling around \$11.2 billion as part of a package also involving money from the World Bank and Japan, effectively lapsed a month later following the devaluation, unilateral default and imposition of exchange controls. The economic outlook for Russia continued to deteriorate over the remaining months of last year. A dialogue continued, however, between the IMF and the Russian government on Russia's economic problems. Monetary policy was tightened at the beginning of this year, which contributed to a stabilisation of the rouble and a slowdown in inflation. At the beginning of 1999 output began to recover as the rouble depreciation encouraged import substitution, helped by the rise in the oil price. In July, the IMF approved a new facility, worth about \$4½ billion over a year and a half to support Russia's economic reform programme.

A report by PriceWaterhouseCoopers investigated allegations of the misuse of IMF funds by the Russian Central Bank (CBR), involving its Jersey-based company FIMACO. It found no evidence of misappropriation of IMF funds, but did find that Russia had misused some of its reserves and misled the IMF over their level. Russia was strongly rebuked for these failings at the July IMF Board meeting and promised to take corrective action.

Following these findings and concern over reports of alleged money laundering, the IMF and World Bank have taken new measures to safeguard IFI resources, and Russia will take steps to increase the transparency and control of CBR operations and government finances.

The measures agreed were set out in the G7 Finance Ministers and Central Bank Governors communique of 25 September 1999:

“In our discussions with our Russian colleagues, we emphasized the critical need for intensified efforts to combat corruption in Russia and money laundering and the importance of adequate safeguards to ensure that funds provided by the international financial institutions are used for their intended purpose. In the case of the IMF, as agreed in the context of Russia's standby arrangements (SBA), IMF financing will be disbursed into an SDR account for the purpose of repaying Russia's obligations to the Fund. Furthermore, we agreed that the Central Bank of Russia

(CBR), prior to disbursement of the next tranche of the SBA, should take steps identified by the IMF to improve internal controls and to initiate quarterly audits of CBR reserve management practices that will be made public before future IMF tranches are disbursed. The Russian government, in cooperation with the IMF and the World Bank, is expected to put in place, prior to disbursement of the next IMF tranche, a system of financial and budgetary controls to ensure proper use of budgetary support from the international financial institutions. We urged the Russian government, in cooperation with the IMF and World Bank, to review all its systems of budgetary and financial management and agree on specific measures to improve financial accountability.

In the case of the World Bank, we welcomed the new safeguards, involving greater control and auditing of World Bank funds, introduced in June, and called on the World Bank to work with Russia on additional safeguards. We also agreed that World Bank structural adjustment lending should be provided only in the context of implementation of broad and significant structural and institutional reforms to promote private investment, jobs, and growth and to combat corruption.”

IV. Codes and Standards

The IMF is a central participant in the effort to promulgate an array of international standards and codes of good practice, designed to improve economic policy making in member countries and provide benchmarks against which countries can assess their own performance.

The UK has been one of the strongest and earliest supporters of this process. In his statement to the IMF Interim Committee in September 1997, the Chancellor suggested that the IMF should:

“Develop a code of good practice for promoting openness in fiscal and monetary policy. This code for a new era of open decision making for our economies should focus on basic principles that apply to all IMF members.....In its Article IV consultations, the IMF should comment on practices in this area in all member countries as a matter of course.”

A year later, again in his statement to the IMF Interim Committee, the Chancellor argued that:

“The international financial institutions have a vital role to play in boosting the international credibility of national policymaking by setting standards for policymaking, and monitoring or policing those standards through regular surveillance and endorsement of sound reforms. These new disciplines are the key building blocks of the new international financial architecture.”

The IMF has made substantial progress in this area. Recent steps include further strengthening of the standards for data dissemination, and adoption of the UK proposal for codes for fiscal transparency in April 1998, and for monetary and financial transparency in September 1999.

The IMF approved in March 1999 a strengthening of the Special Data Dissemination Standard (SDDS) to provide for more timely and comprehensive disclosure of data on countries' international reserve positions. The UK was among the first countries to subscribe fully to all aspects of the SDDS, and we expect to have made all necessary changes by the time that the new standard comes into force at the end of March 2000

The IMF's Code of Good Practices on Fiscal Transparency was approved in April 1998. An implementation manual, a questionnaire, and a self-evaluation process have also been published. The UK was the first country to publish its self-evaluation report and response to the IMF questionnaire.

The Code of Good Practices on Transparency in Monetary and Financial Policies was approved in September 1999. The Code seeks to establish standards for monetary and financial authorities in the following areas:

- S clarity of roles, responsibilities, and objectives;
- S open process for formulating and reporting policy;
- S public availability of information; and
- S accountability and assurances of integrity.

Among other specific elements, the Code calls for regular independent

audits of central banks' financial statements, which will help ensure that use of IMF resources is accurately accounted for. A supporting implementation document is also being prepared.

In addition to participating in the development of such standards, the UK together with its G7 partners has called on the IMF to take the lead in a system for assessing the implementation of these and other relevant codes and standards, building on the Article IV surveillance process and relying on close collaboration with the World Bank and other standard setting bodies.

In October 1998, the G22 Working Group on Transparency and Accountability, chaired by Mervyn King, Deputy Governor of the Bank of England, recommended that the IMF, in the context of its Article IV consultations, prepare a transparency report that summarises the degree to which an economy meets internationally recognised disclosure standards. The UK, Australia, and Argentina were the first three countries for whom such reports were prepared and published. Ten such experimental reports have now been published. These reports, which vary in scope, assess the extent to which the country concerned observes international standards in areas of direct operational relevance to the Fund, including: data dissemination; the transparency of fiscal, monetary and financial policies; and banking supervision. A further round of case studies will be conducted over the coming year.

V. Private Sector Involvement

Better involvement of the private sector in crisis prevention and crisis resolution is critical to provide the finance for orderly adjustment, limit perverse incentives for investors to invest in a country in the anticipation that they will be bailed out by the official sector, strengthen market discipline, and help emerging market borrowers insure themselves against volatility and contagion.

The UK has argued that there is a need to draw up a new framework of partnership for crisis prevention and resolution between the private and

public sector, providing the right incentives and ensuring that all parties which benefit from the international financial system play their part in maintaining stability. Such a framework would provide a degree of predictability for investors in a way which could in itself help to prevent crises as well as facilitate their orderly resolution.

In his speech to the EBRD Annual Meetings in April 1999 the Chancellor said:

“I believe that we must now decide to establish a new set of rules in advance of crises for involving the private sector, giving them rights and responsibilities.”

In their report to the Cologne Summit in June 1999, G7 Finance Ministers presented a framework of broad principles and tools for private sector involvement in crisis resolution. This framework represents a first step towards the development of new rules of the game along the lines advocated by the UK. In their September 1999 communique, the Interim Committee of the IMF noted that the balance of considerations reflected in the report by G7 Finance Ministers provided a helpful framework within which the international community could work to address individual cases. The IMF will now build on this framework and attempt to refine the ways in which its broad principles are implemented in practice.

VI. Strengthening Financial Sectors

Problems in the financial sector, especially, but not exclusively, the banking system, can be disruptive to growth and macroeconomic stability and can spill over regionally and internationally, as highlighted by the emerging markets financial crisis. And because today's financial markets are global, they need not only proper national supervision but also global financial regulation. It is essential that the international and national bodies responsible for financial sector regulation and supervision work together more effectively.

The UK has encouraged the IMF to work closely with the World Bank and international groupings of national supervisors (including the Basle Committee) in its surveillance of financial sector issues.

And in April 1998, the Chancellor called for Fund surveillance of these issues to be formally linked to World Bank expertise. He proposed that the IMF and the World Bank deal jointly with financial sector issues in all member countries in: the IMF's regular surveillance; the Bank's analyses of countries' structural policies; and the advice both the Fund and the Bank give to countries on financial sector restructuring.

In September 1998, a joint committee – the Financial Sector Liaison Committee (FSLC) – was established by the Fund and the Bank to enhance collaboration in strengthening financial systems. Its aim is to ensure that the IMF and the World Bank deliver high quality, sound, and timely advice to countries, and that expert staff from both institutions are used in the most effective way. Over the past year, the Committee has:

- S initiated actions to enhance coordination of the two institutions' work programmes, developed guidelines and procedures for information sharing, and incorporated internationally recognised standards and sound practices in the work programme.

- S agreed to coordinate a joint financial sector monitoring and assessment programme (FSAP). Under this programme, the two institutions are carrying out in-depth assessments of countries' financial systems with a view to identifying financial system strengths and vulnerabilities. Five countries are now part of the first wave of assessments. FSAP assessments will feed into the IMF's macroeconomic surveillance and country financial stability assessments, and into the World Bank's financial sector development and country assistance strategies.

In October 1998 the UK proposed bringing together the IMF and the World Bank, with key regulatory authorities, in a new permanent committee for global financial regulation charged with delivering the global objective of a stable financial system.

The Financial Stability Forum was convened in April 1999 to promote international financial stability through information exchange and international cooperation in financial supervision and surveillance. The Forum has made a successful start by establishing working groups to

coordinate the work of the international financial community on the implications of highly-leveraged institutions, offshore centres, short-term capital flows and looking at the implementation of international standards and deposit insurance schemes. The Forum's work is making co-operation between international institutions and national regulators a fact of international financial life.

VII. Contingent Credit Line

In their October 30 Declaration, G7 Finance Ministers called on the IMF to explore ways in which it could support countries with fundamentally sound and well managed economies, but which were concerned about the potential effects of contagion on their access to capital markets. In April 1999, the IMF agreed to provide Contingent Credit Lines (CCL) for member countries with strong economic policies as a precautionary line of defence readily available against future balance of payments problems that might arise from international financial contagion. The approval of financing under the CCL would signal the IMF's confidence in a country's economic policies and in its determination to adjust them as needed should contagion hit.

This new instrument is also intended to play a role in preventing crises, including by creating further incentives for the adoption of strong policies and adherence to internationally recognised standards, encouraging the constructive involvement of the private sector, and thereby reducing the risks of financial market contagion.

VIII. Sharpening the Social Dimension of IMF Programmes

The UK has taken the lead in pressing the IMF to develop the social dimension to its work in all countries. The Asia crisis demonstrated the devastating impact that economic shocks can have on the most vulnerable sections of society and highlighted the need to ensure adequate social provision. Building on the codes of good practice in fiscal policy, monetary policy and corporate governance the UK has stressed the need to identify and disseminate principles and good practice in social policy. Following discussion at the Development Committee in April 1999, this work has been taken forward by the World Bank and the UN. In his statement to the Board of Governors of the Fund on 28 September 1999, the Managing Director of the Fund

explicitly highlighted the vital relationship between growth and social development.

In discussions of the role of the Fund in this area, the Board recognized the need for mutually reinforcing macroeconomic and social policy. The Board underscored the importance of more closely integrating, with the help of the World Bank, social issues and poverty concerns into Fund-supported programmes and stressed that greater attention to social issues was necessary in the context of low-income countries, including HIPC's. This approach will require intensive cooperation between the IMF, World Bank and other relevant institutions based on their respective responsibilities and comparative advantages.

In addition, the UK has called for IMF staff to assess, in the course of surveillance, the adequacy of a country's social policy instruments, the performance of its social safety nets, and the potential social ramifications of its macroeconomic and financial policies. This matter will be taken up in the forthcoming biennial review of surveillance.

The UK has also argued for a strengthened social data standard. The poor quality of data on social spending, social indicators, and social protection arrangements is a key constraint on effective policy design and implementation. Given this, the IMF, in collaboration with the World Bank, UN and others is now attempting to identify weaknesses in data and data collection, and to make improvements.

IX. Strengthening the Link between Debt Relief and Poverty Reduction

Perhaps the most significant single development has been the agreement to transform the Enhanced Structural Adjustment Facility (ESAF) into the Poverty Reduction and Growth Facility (PRGF). The key components of this new approach are:

- S the new facility will be based on a comprehensive, country-driven Poverty Reduction Strategy Paper (PRSP) which will be outcome-focussed and will have strong country ownership;
- S the social and sectoral programmes aimed at poverty

reduction will be taken fully into account in the design of macroeconomic policy. The government's social goals will be given greater priority;

- S increased focus on good governance, greater transparency and effective monitoring procedures.

The PRSP should ensure consistency between a country's macroeconomic, structural, and social policies and the goals of poverty reduction and social development. PRSPs will be discussed by the Executive Boards of the IMF and the World Bank and will become the primary vehicle for closer World Bank-IMF collaboration in IDA (International Development Association) and ESAF/ PRGF countries. They will also provide the framework for all IMF and World Bank concessional operations in low income countries. To maximise coherence and complementarity it has also been suggested that donor assistance might be guided by the PRSP. The Bank and Fund are proceeding with the introduction of PRSPs in Heavily Indebted Poor Countries (HIPC) and in the pilot cases for enhanced World Bank-IMF collaboration. But this process will take time and will need to be applied pragmatically, taking into account each country's circumstances and capacity.

A pragmatic approach will be especially important in the cases of HIPC countries which have already reached, or are close to reaching, their decision point. It has been agreed that during this transition period decision points can take place while a PRSP is being formulated, but demonstrable progress in implementation of the PRSP will be expected prior to the completion point. The Board has agreed that for HIPC countries which have already reached their decision or completion points under the current framework, the timing of the proposed additional debt relief will be determined, inter alia, on the basis of an assessment of their progress in designing and implementing their poverty reduction strategies.

The UK has emphasised the need to ensure that the PRSP process does not lead to unnecessary delays in the provision of enhanced debt relief.

Broad-based participation, good governance, transparency and

accountability will be essential to the successful and sustained implementation of poverty reduction strategies. Increasingly, a government's commitment to these principles is seen as the litmus test of its efforts to improve social conditions.

X. The HIPC Initiative

Background

The Heavily Indebted Poor Country (HIPC) Initiative, originally launched by the IMF and the World Bank in 1996, seeks to help the world's poorest countries with good policy track records to achieve overall external debt sustainability.

Although the original HIPC Initiative was acknowledged as a positive step forward, the UK government was concerned that it was delivering too little, too late. The time between qualification and granting of relief was too long and the initiative was failing to secure the permanent exit from unsustainable debt that it was meant to achieve. In addition, debt relief was failing to free up sufficient resources for investment in key sectors, such as health and education.

In October 1998, at the Annual Meetings of the IMF/World Bank, the UK pressed for, and successfully secured, a fundamental review of the Initiative. The UK's objective was to secure **faster, deeper, and broader debt relief**.

UK proposals for an Enhanced HIPC Initiative

Since 1997, the UK has been at the forefront of efforts to reform the IMF and World Bank's approach to debt relief. Initial efforts focused on improving the operation of the HIPC Initiative, and on adapting it where possible. At the Commonwealth Finance Ministers meeting in October 1997, the Chancellor's Mauritius Mandate called on the international community, the IMF and the World Bank to set the target of every eligible poor country to have embarked on the process of securing a sustainable exit from their debt problems by the year 2000 and for firm decisions on the amounts and terms of debt relief for at least three-quarters of these countries.

Both the international financial institutions and national governments responded positively. In 1998, the IMF and the World Bank initiated a two-stage review of the HIPC Initiative: Phase 1 examined concerns about the current framework, including debt sustainability targets, the timing of decision and completion points, and performance under economic and social programmes; Phase 2 considered, in more depth, the link between debt relief and poverty reduction. In the course of the review, the IMF and the World Bank consulted widely amongst civil society, academia, national governments, and other groups and institutions.

As part of Phase 2 of the Review, HM Treasury and Department for International Development submitted a joint memorandum on “Debt Relief and Poverty Reduction”. In this, the government stressed the need to reduce debt service payments in order to free up resources for poverty reduction and the importance of closely linking debt relief to real reductions in poverty through developing a country specific, comprehensive and participative poverty strategy.

At its April 1999 meeting, the Interim Committee encouraged the Executive Boards of the IMF and World Bank to develop specific proposals to strengthen the HIPC Initiative framework so as to enhance debt relief in a way that reinforced incentives for adopting strong programmes of adjustment, reform, and good governance.

The G7 Summit in Cologne, in June 1999, responding to Phase 1 of the review, made specific proposals for **faster, deeper and broader debt relief**. It called on the Fund and Bank to develop an enhanced framework for poverty reduction and also for faster, deeper and broader debt relief through a combination of policy and administrative changes. The G7 called for three quarters of all eligible countries to reach decision points by the end of 2000.

The G7 stated that the central objective of the initiative was to provide a greater focus on poverty reduction by releasing resources for investment in health, education and social needs and also by promoting comprehensive and participatory frameworks for poverty reduction, good governance and sustainable development.

The UK is widely acknowledged as a driving force in these

developments. The UK government's ideas have provided much of the intellectual basis for the new proposals, especially on the link between debt relief and poverty reduction. The UK has also consistently argued in the Fund and Bank Boards for a more long-sighted, pragmatic and generous approach. The political momentum behind this issue, in large part generated in the UK, has enabled a consensus to be built around new aims, objectives and eligibility criteria for an enhanced HIPC Initiative.

The enhanced HIPC Initiative agreed at the September 1999 Annual Meetings aims to deliver faster, deeper and broader relief. More specifically, the enhanced initiative seeks to ensure that:

- C debt relief should focus particularly on the poorest countries for whom excessive debt can be a particularly severe obstacle to development;
- C debt relief should provide a clear exit from an unsustainable debt burden and remove debt overhangs;
- C debt relief should be irrevocable;
- C implementation of the HIPC Initiative should be simplified and made more transparent;
- C debt relief should reinforce the tools of the international community with the aims of promoting sustainable development and poverty reduction.

What will HIPC 2 Deliver?

- C debt will be reduced by \$100bn, or two thirds of the debt owed by 36 of the world's poorest countries.
- C debt relief will be faster. Interim relief is available from the decision point – effectively within 3 years of the country starting its IMF programme.
- C debt relief will be deeper, ensuring that HIPC countries' debt-to-exports ratio falls to 150% (previously 200–250%) and the

- debt-to-revenue ratio to 250% (previously 280%);
- C debt relief will be broader, now with 36 eligible countries;
- C a simplified, better coordinated process between Bank and Fund, with single targets and decisions based on real data not forecasts;
- C a clear link between debt relief and poverty reduction through the new, country specific, Poverty Reduction Strategy Papers (PRSPs) which will guide the IMF's new Poverty Reduction and Growth Facility (PRGF).

Financing the HIPC Initiative

The costs of the enhanced HIPC initiative are to be met from the resources of the IMF, the World Bank, other Multilateral Development Banks and bilateral donations from creditor nations.

The costs to the IMF of the enhanced HIPC initiative will be financed from a combination of sources: increased use of the IMF's own resources; revaluation of part of the IMF's gold reserves and investment of the proceeds in interest bearing assets; transfer by national governments of balances in the Special Contingent Account 2 (SCA2) to the ESAF-HIPC Trust; and additional bilateral contributions.

The government has also so far pledged a total of \$264 million to the HIPC Trust Fund, which has been set up to help the Multilateral Development Banks meet their costs under the initiative. This is the largest bilateral pledge to the Trust Fund of any creditor nation. In addition, the government with our European colleagues, has persuaded the European Commission to make available over 1 billion euros from underspends in the European Development Fund to be used for debt relief under the HIPC initiative. Of this 1 billion euro, the government has pressed for the maximum amount possible to go to the HIPC Trust Fund. The Trust Fund is expected to receive approximately 680 million euros early in 2000.

XI. Transparency and Accountability in the Fund's Own

Operations

Greater information on the activities of the IMF contributes to greater public understanding of the institution. The UK has argued strongly for actions to increase Fund transparency, and to improve the effectiveness of its operations and procedures. The promotion of openness and transparency in the public and private sectors will work best if the IMF and other international institutions are themselves more open.

Many reforms have already been agreed. They include:

- C increased dissemination of information on the Fund's annual consultations with member countries, through the release of concluding statements by the IMF mission teams, Public Information Notices (PINs) following the Executive Board discussion of the Article IV report, and a pilot project for the voluntary release of Article IV staff reports;
- C a presumption that member countries will release programme documents (Letters of Intent, Memoranda of Economic and Financial Policies, and Policy Framework Papers);
- C PINs are also now used to inform the public of Executive Board conclusions following discussions of policy issues and regional surveillance;
- C since November 1998, the Fund has published at intervals throughout the year, information on its financial resources and liquidity position, in addition to the information already available in the IMF Annual Report and other publications;
- C the liberalisation of access to the Fund's archives. The waiting period for the release of Executive Board documents in the archives has been reduced from thirty years to five years. Other Fund documents are now accessible after twenty years rather than thirty.

In addition to these measures, the UK has sought to increase the

accountability of the IMF by supporting calls for more systematic independent review procedures. In this context, the IMF launched a series of evaluations by independent external experts, covering a range of policy issues. The first of these, which considered several aspects of Enhanced Structural Adjustment Facility (ESAF) supported programmes, was completed in early 1998. In the summer of 1999, two additional reports, on Fund Surveillance and the Fund's Economic Research Activities, were published.

The UK has repeatedly called for the creation of a new independent evaluation unit, inside the IMF, but reporting directly to the Fund's shareholders, and in public, on the Fund's performance. Looking forward, the IMF will shortly undertake a review of its experience with independent evaluation to-date, with a view to regularising the process of independent evaluation through permanent procedures.

XII. The International Monetary and Financial Committee

At their September 1999 meeting, the Interim Committee of the Board of Governors of the IMF, chaired by the Chancellor, adopted a resolution to strengthen the Committee by giving it permanent standing as the 'International Monetary and Financial Committee'. This change will strengthen its role as the advisory committee of the Board of Governors.

Also in September, the Committee met jointly with the Development Committee to discuss the enhancement of the HIPC Initiative. This was the first time that the two Committees had met jointly.

XIII. Financial Operations

New Arrangements to Borrow

Following the Mexican financial crisis in December 1994, concern that substantially more resources might be needed to respond to future financial crises prompted the G7 to call on the G10 and other financially strong countries to develop financial arrangements that would double the amount available to the IMF under the General Arrangements to Borrow (GAB). The result was the New Arrangements to Borrow (NAB) which came into effect in November 1998.

Under the NAB, twenty five countries have agreed to lend up to around \$46 billion to the Fund in the case of financial emergencies. The UK's share in the arrangements is 7.6 per cent.

The NAB has so far been activated once to finance part of Brazil's IMF programme in November 1998. NAB participants, including the UK, agreed to lend up to \$12.7 billion, of which \$4.1 billion was used. This activation was cancelled in March 1999 when the Fund repaid the outstanding amount when the IMF quota increase came into effect.

Quota Review

The Fund must have adequate resources to maintain its effectiveness as a monetary institution addressing temporary balance of payments problems through support of sound adjustment policies. The primary means of financing the IMF is quotas. Each member of the IMF is assigned a quota, which is expressed in SDRs and is equal to its subscriptions of capital to the IMF. A member's quota determines its voting strength in the IMF. Quotas also determine a country's access to IMF resources and the contribution that it makes to those resources.

The Fund's Articles of Agreement specify that a general review of quotas must take place at intervals of not more than five years. These periodic reviews ensure that the IMF has the resources that it needs to do its job. The reviews take account of growth in the world economy and changes in the relative strengths of members' economies. In 1998 the Eleventh General Review agreed on a 45 per cent increase in IMF quotas to SDR 212 billion (about \$292 billion)². In January 1999, the consent of the 85 per cent majority of member countries needed for the quota increase to become effective was secured. As of August 1999, 153 member countries, including the UK, had consented to (i.e given effect to) their quota increase. The UK's quota was raised from SDR 7.4146 billion (about \$10.2 billion) to SDR 10.7385 billion (about \$14.8 billion), equivalent to around 5 per cent of the IMF's total quota-based resources.

XIV. The UK's Article IV Consultation

²1\$US = 0.727 SDR as at 10 December 1999

The IMF conducts regular discussions with the authorities of member countries on economic policies and conditions, in accordance with Article IV of the Fund's Articles of Agreement.

The 1998 Article IV consultation discussions with the UK were held in London from 11-21 December. Fund staff met with the Chancellor of the Exchequer, the Governor of the Bank of England, senior officials of the government and the Bank of England, and representatives of financial institutions, independent research institutes, business, and trade unions.

The IMF concluded that the UK's impressive economic performance in recent years had been underpinned by strengthening the macroeconomic policy framework through a clear medium-term orientation, guided by the key principles of transparency, accountability, and credibility.

The UK is committed to publishing the documents relating to its Article IV consultations. In 1998 the UK published the Mission Chief's Concluding Statement and the PIN following the Executive Board discussion. The UK has agreed to participate in the pilot programme for the voluntary release of Article IV staff reports. Unfortunately the pilot programme began too late to allow us to release the 1998 Article IV report, but we expect to release the 1999 report following the Executive Board discussion early in the New Year.

XV. The IMF and the World Bank

The IMF and the World Bank are both important institutions for the UK, each playing a unique role in the international economic and financial system. Nevertheless, there are key areas where the mandates of the two institutions overlap, or where there is a requirement for close cooperation and coordination of their activities. The UK, together with its G7 partners, has called for efforts to increase cooperation and coordination between the IMF and the World Bank. Two particular examples of areas where close working and cooperation are essential are: assistance for Heavily Indebted Poor Countries (HIPC) and other initiatives to reduce poverty; and cooperation on addressing financial sector reform. The UK is a strong supporter of co-ordination between

the IMF and the World Bank in these, and in other, areas.

XVI. Y2K

Over the past few years, the IMF has encouraged all countries to work on preventive action in preparing their computer systems for the millennium date change and to put in place millennium contingency plans. In addition, in September 1999, the IMF introduced a temporary new facility to provide short-term access to IMF resources for countries facing identifiable Y2K-related balance of payments difficulties.

Annex 1 : Managing the UK's Interests at the IMF

The Chancellor of the Exchequer is the UK's Governor of the IMF and is responsible for the management of UK interests at the Fund. The Chancellor exercises influence on IMF issues through:

- S interventions at the spring and autumn meetings of the International Monetary and Financial Committee (formerly the Interim Committee);
- S his plenary speech at the IMF/World Bank annual meetings;

- S periodic meetings with the Managing Director of the Fund;
and
- S the UK's Executive Director at the Fund's Executive Board.

In September 1999, the Chancellor was appointed Chairman of the Interim Committee (now the International Monetary and Financial Committee).

The Governor of the Bank of England is the UK's Alternate Governor of the IMF. The Governor also participates in the spring and autumn meetings of the Fund. The Secretary of State for International Development is the UK Governor of the World Bank.

From April 1999, Interim Committee meetings benefited from a preparatory meeting of Committee Deputies. In September 1999, this meeting was chaired by Sir Nigel Wicks, head of the International Finance Directorate in HM Treasury.

The management of the UK's interests in the ongoing work of the IMF is the responsibility of the UK Executive Director, Stephen Pickford. He is one of 24 Executive Directors. The Executive Board is the main decision-making body of the Fund, and normally meets three times a week.

HM Treasury coordinates UK policy advice on IMF issues and the UK's operational interests at the Fund. The Bank of England, the Department for International Development, the Foreign and Commonwealth Office, the Financial Services Authority, and other government departments and agencies, also work closely with the Treasury in providing advice on IMF issues. Within HM Treasury, the International Finance Directorate is specifically responsible for preparing advice on the policy issues and specific country programmes that are brought before the Executive Board.

Annex 2 : The UK's Financial Relations with the IMF

The primary means of financing the IMF is through members' quotas. Each member of the IMF is assigned a quota, which is expressed in Special Drawing Rights (SDRs) and is equal to its subscriptions of capital to the IMF. A member's quota determines its voting strength in the IMF. Quotas also determine a country's access to IMF resources as well as the contribution that it makes to those resources.

Part of a member's quota subscription is normally payable in SDRs or specified usable currencies ("reserve assets"), and the remainder is payable in the member's own currency. When quotas are increased, 25 percent of each member's increase is normally paid in reserve assets. The balance is paid in the member's own currency, normally in the form of non-negotiable, non-interest-bearing notes (essentially promissory notes).

The difference between a member's quota and the IMF's holdings of its currency - called the reserve tranche - represents the resources the IMF has actually drawn upon. As the IMF cashes in the sterling notes and draws upon the UK's quota, the UK's reserve tranche rises.

The UK's quota is financed from the National Loans Fund (NLF) which is audited by the National Audit Office, and the accounts are laid before Parliament.

The UK's reserve tranche forms part of our reserves and as such, increases in its size do not constitute public expenditure. The UK could call on its reserve tranche at short notice in the event of balance of payments need.

The larger part of our reserve tranche is remunerated at the SDR interest rate. The remainder, around a third, is unremunerated. This is because part of our quota was made available to the IMF prior to the 1970s, before the IMF introduced the system whereby countries' reserve tranches are remunerated at the SDR interest rate.

At 30 September 1999, our unremunerated reserve tranche position stood at SDR 700 million (approximately \$964 million), compared with a remunerated reserve tranche position of nearly SDR 3.345 billion

(approximately \$4.6 billion).

Quota Review

The Fund's Articles of Agreement specify that a general review of quotas must take place at intervals of not more than five years. These periodic reviews ensure that the IMF has the resources that it needs to do its job. The reviews take account of growth in the world economy and changes in the relative strengths of members' economies. In 1998 the Eleventh General Review agreed on a 45 per cent increase in IMF quotas to SDR 212 billion (about \$292 billion). In January 1999, the consent of the 85 per cent majority of member countries needed for the quota increase to become effective was secured. As of August 1999, 153 member countries, including the UK, had consented to (i.e given effect to) their quota increase. The UK's quota was raised from SDR 7.4146 billion (about \$10.2 billion) to SDR 10.7385 billion (about \$14.8 billion), equivalent to around 5 per cent of the IMF's total quota-based resources.

Special Drawing Rights

Special Drawing Rights (SDRs) are an international reserve asset created by the IMF and defined in terms of a basket of the dollar, the euro, the yen and the pound. The IMF has periodically created SDRs. When SDRs are created they are allocated to members in proportion to their quotas. The UK is currently allocated 1913 million SDRs but holds much less (holding 262 million SDRs at September 1999). SDRs are interest bearing (the SDR interest rate is calculated as the average of short term interest rates on dollars, euros, yen and sterling). Members are credited with interest on their holdings of SDRs and pay interest on their allocation of SDRs at this rate.

Other Borrowing

Over the years the IMF has supplemented the quota system with other sources of funding.

i. General Arrangements to Borrow

The General Arrangements to Borrow (GAB) are long-standing arrangements under which the Group of Ten industrial countries stand ready to lend to the IMF to finance purchases that aim at forestalling or coping with a situation that could impair the international monetary system. The GAB currently amount to SDR 17 billion and there is also an associated arrangement with Saudi Arabia for SDR 1.5 billion.

Since their establishment in 1962, these arrangements have been renewed every four or five years and have been invoked 10 times. The GAB was activated in July 1998, providing the Fund with \$8.4 billion for lending to Russia (of which \$1.9 billion was used). The UK participated in this facility, which was repaid by the IMF in March 1999 following the quota increase.

ii. New Arrangements to Borrow

Since 1998 the Fund has had a new SDR 34 billion (roughly equivalent to \$46 billion) facility at its disposal: the New Arrangements to Borrow (NAB), which comprises GAB members and a range of emerging economies. It is intended that the NAB, should replace the GAB as the primary financial resource for the Fund in the event it needs additional liquidity. The UK's \$3.5 billion contribution to the NAB has been approved by Parliament

The combined amount that can be drawn under the NAB and the GAB cannot exceed SDR 34 billion.

The NAB was first activated in December 1998, providing the Fund with \$12.7 billion (of which \$1.4 billion was used) in connection with the IMF programme for Brazil. As with the GAB, this has now been repaid in full.

Cost of UK funding for the IMF during 1998-99

Although changes in the reserve tranche do not count as public expenditure, there is a cost to the UK arising from IMF membership because no interest is paid on the unremunerated portion of the reserve tranche. Additionally, since the reserve tranche is denominated in SDRs the interest rate paid on the remunerated portion is based on the market rates for the currencies which make up the SDR basket (as is interest paid on GAB or NAB loans). The UK Government's sterling borrowing costs are

determined by sterling interest rates. So there is a mismatch between the interest earned on the reserve tranche and the cost of funding. The currency mismatch can also give rise to exchange rate gains and losses.

In the UK's case this mismatch is partly reduced because the UK holds many fewer SDRs than it has been allocated in the past. This means exchange rate gains or losses on the sterling value of the UK's reserve tranche are partly offset by exchange rate gains or losses on its net negative SDR position.

During 1998-99, the interest earned on the reserve tranche position, GAB/NAB loans and holdings of SDRs fell an estimated £50 million short of the interest the UK was charged on its SDR allocation and the cost of the sterling borrowing required to finance the reserve tranche (and GAB/NAB loans).

The depreciation in the value of sterling compared to the SDR basket over the financial year did, however, result in an exchange rate gain of £40 million for 1998-99. The overall cost of funding the IMF was therefore around £10 million in 1998-99.

The interaction of the effects described above means that the cost to the UK of its IMF membership in terms of net interest foregone on a portion of the reserves varies from year to year. Over previous years, it has averaged around £38 million.

Annex 3

DECLARATION OF G7 FINANCE MINISTERS AND CENTRAL BANK GOVERNORS

30 October 1998

The financial problems which began in Asia last year have exposed weaknesses in emerging market countries and in the international financial system.

2. At our meeting in Washington on 3 October, we, the Finance Ministers and Central Bank Governors of the G7 countries, agreed on the importance of intensified co-operation among us in meeting the challenges of the current situation and on the need to work together quickly on a wide range of reforms to strengthen the international financial system. Today our Leaders announced agreement on a number of follow up steps to this end which we will be implementing as rapidly as possible.

MEETING THE CHALLENGES OF THE CURRENT SITUATION

3. We welcome the positive developments since our meeting on 3 October. As we said following that meeting, we reaffirm our commitment to create or sustain the conditions for strong, domestic demand-led growth and financial stability in each of our economies. The authorities will continue to be vigilant in the light of the shift in the balance of risks on a global basis. There has also been important progress in a number of other areas:
 - i. we welcome the positive steps that have been taken towards the implementation of the IMF Quota increase and the New Arrangements to Borrow. We call for these to be implemented as soon as possible. Together they will provide additional resources of \$90 billion for the IMF which should be used to ensure the stability of the international financial system;
 - ii. in consultation with our partners, we further commit ourselves to supplement the Fund's resources where necessary through the activation of the New Arrangements to Borrow and the General Arrangements to Borrow;
 - iii. in Europe, it will be necessary to push forward with structural reforms and, in continental Europe, prepare for the euro, and reduce unemployment to sustain conditions conducive to robust domestic demand;
 - iv. in Japan, legislation has now been passed on the banking sector, a major step forward in the process of strengthening the financial system. The Japanese authorities have made clear their intention that the essential swift and effective action to complete the process, including the recapitalisation of banks, with appropriate conditions, will be taken as a matter of urgency. This action, together with a sustained boost to domestic demand, is a key precondition for the restoration of market confidence and growth not just in Japan

but in the whole Asian region;

- v. in the US, it will be important to continue to maintain sound policies which promote solid growth and low inflation;
 - vi. the policy commitments by the Government of Brazil, which we will work with the international community to support;
 - vii. the progress made in many countries in Asia toward establishing the foundation for recovery;
 - viii. in response to the current exceptional circumstances in the international capital markets, we are agreed that strengthened arrangements for dealing with contagion are needed;
- C the central element would be the establishment of an enhanced IMF Facility which would provide a contingent short-term line of credit for countries pursuing strong IMF approved policies. This facility could be drawn upon in times of need and would entail appropriate interest rates along with shorter maturities;
- C the facility would be accompanied by appropriate private sector involvement;
- C in appropriate circumstances the facility could be complemented, in individual cases, by bilateral contingent financing activated alongside the IMF facility. It would remain up to individual G7 governments and other governments concerned to decide in each case whether to provide such bilateral financing;
- ix. we also welcome the new World Bank emergency facility, to provide additional funding on special terms to the most vulnerable groups in society and for restructuring the financial sector. We welcome the progress the World Bank has made in the development of this facility. We also support the more

active use of loan guarantees to encourage greater private sector involvement in emerging market financing.

REFORMS TO THE INTERNATIONAL FINANCIAL SYSTEM

4. Following detailed discussions, including with colleagues from other industrial and emerging market economies, we, the Finance Ministers and Central Bank Governors of the G7 countries, are now agreed on the following specific reforms to strengthen the international financial system. We have agreed to carry these forward through our own actions and in the appropriate international financial institutions and forums. These reforms are designed to: increase the transparency and openness of the international financial system; identify and disseminate international principles, standards and codes of best practice; strengthen incentives to meet these international standards; and strengthen official assistance to help developing countries reinforce their economic and financial infrastructures. They also include policies and processes to ensure the stability and improve the surveillance of the international financial system. Finally, they aim at reforming the International Financial Institutions, such as the IMF, while deepening cooperation among industrialised and developing countries.

CRISIS PREVENTION

Transparency and policy-making procedures

5. We agree on the need for greater transparency and openness in the financial operations of individual countries, of financial and corporate institutions, and of the International Financial Institutions. The cornerstone for this is stronger and more comprehensive internationally agreed principles, standards and Codes of best practice, as well as the extension of international surveillance of their implementation.
6. We agree in the public sector to deliver greater transparency in economic policy-making and in disclosure of economic statistics and key indicators. We therefore commit ourselves to:

- i. comply with the IMF's Code of Good Practices on Fiscal Transparency;
 - ii. comply with an internationally agreed Code of Conduct on Monetary and Financial Policy. We urge the IMF quickly to complete its work on this Code by the 1999 Spring meetings;
 - iii. disseminate regular and timely information about the aggregate foreign exchange liquidity position of our public sectors and to work cooperatively to improve the compilation and dissemination of similar information in relation to financial and corporate sectors.
 - iv. support efforts underway in the IMF to reach decisions by the end of 1998 on steps to strengthen the SDDS, including the provision of more comprehensive information on reserves and improving statistics on external debt and a country's international investment position.
7. Similar standards of transparency are required in the private sector. We call upon:
 - i. the OECD, in consultation with the World Bank and other regulatory bodies, quickly to complete its work on a Code of principles of sound corporate governance and structure by the May 1999 Ministerial;
 - ii. the IASC to finalise by early 1999 a proposal for a full range of internationally agreed accounting standards. IOSCO, IAIS, and the Basle Committee should complete a timely review of these standards;
 - iii. the appropriate committees headquartered in the BIS, in conjunction with emerging market countries, national authorities, and other relevant private and public sector bodies, to examine the question of appropriate transparency and disclosure standards for private sector financial

institutions involved in international capital flows, such as investment banks, hedge funds and other institutional investors.

8. We commit ourselves to endeavour to ensure that private sector institutions in our countries comply with these principles, standards and codes of best practice.
9. We call upon:
 - i. all countries which participate in global capital markets similarly to commit to comply with these internationally agreed codes and standards;
 - ii. the IMF to monitor, in close co-operation with the standard-setting bodies, the implementation of these codes and standards as part of its regular surveillance under Article IV;
 - iii. the IMF to publish in a timely and systematic way the results of its surveillance of the degree to which each of its member countries meets internationally recognised codes and standards of transparency and disclosure in the form of a Transparency Report;
 - iv. the Fund, World Bank, OECD and the international regulatory and supervisory organisations to work closely together to provide advice and, where necessary, assistance to countries to help them meet these internationally agreed codes and standards.

Stability of the International Financial System

10. We agree that better processes are needed for monitoring and promoting stability in the international financial system and for the International Financial Institutions, working closely with the international supervisory and regulatory bodies, to conduct surveillance of national financial sectors and their regulatory and supervisory regimes with all

relevant information accessible to them.

11. We agree therefore that we will:
 - i. support the establishment of a process for strengthened financial sector surveillance using national and international regulatory and supervisory expertise, including through a process of peer review, and the IMF's regular surveillance of its member countries under Article IV;
 - ii. to this end bring together the key international institutions and key national authorities involved in financial sector stability better to co-operate and to co-ordinate their activities in the management and development of policies to foster stability and reduce systemic risk in the international financial system and to exchange information more systematically on risks in the international financial system.

At our meeting on 3 October we asked Dr Tietmeyer to consult the relevant international bodies on these reforms and we look forward to his conclusions.

12. We call upon other countries which participate in the global capital market to give their support to the establishment and operation of the process.
13. We commit ourselves to strengthen, in our own countries, the regulatory focus on risk management systems and prudential standards in financial sector institutions; in particular, examining the implications arising from the operation of leveraged international financial organizations including hedge funds and offshore institutions. Appropriate means should be sought to encourage off-shore centres to comply with internationally agreed standard. We call upon other countries which participate in the global capital markets to take similar action.
14. In addition, as part of the process of developing better ways to respond to crises, we call upon :
 - (i) the private sector to facilitate "collective action clauses" for more

orderly workout arrangements, and we will consider the use of such clauses in our own sovereign and quasi-sovereign bond issues;

- (ii) the World Bank in cooperation with the IMF and other multilateral development banks to work with their members to put in place effective insolvency and debtor-creditor regimes;
 - (iii) the IMF to move ahead, under carefully designed conditions and on a case by case basis, with its recently reaffirmed policy of lending into arrears. We will instruct our Executive Directors to monitor application of this policy carefully in the current environment;
 - (iv) the private sector to build upon its experience with some emerging market countries in developing market-based contingent financing mechanisms, the conditions of which might provide either greater payments flexibility or the assurance of new financing in the event of adverse market developments. The private sector also needs to be involved appropriately in crisis management and resolution.
15. We recognise that the opening of capital markets in emerging economies must be carried out in a careful and well sequenced manner if countries are to benefit from closer integration into the global economy. In particular, financial sectors and regulatory and supervisory regimes must be robust and adequate to deal with risk. The international financial institutions should play a constructive role in the process of orderly opening of the capital account.
16. We agree that more attention must be given in times of crisis to the effect of economic adjustment on the most vulnerable groups in society. We therefore call upon the World Bank to develop as a matter of urgency general principles of good practice in social policy, in consultation with other relevant institutions. These should be drawn upon in developing adjustment programmes in response to crises.

IMF REFORMS

17. As our Executive Directors at the IMF have outlined, we have agreed to support a broader range of reforms to improve the effectiveness of the IMF including transparency and accountability of the IMF, changes in lending policies, terms of lending and improved conditionality.
18. In particular, we call upon:
 - i. all IFIs to adopt a presumption in favour of release of information, except where this might compromise confidentiality;
 - ii. the IMF to develop a formal mechanism for systematic evaluation, involving external input, of the effectiveness of its operations, programmes, policies and procedures.

NEXT STEPS

19. We agree to take immediately the actions to which we have committed ourselves. These measures will strengthen the fundamentals of the international financial system and assist crisis-affected countries to find a route out of their current difficulties.
20. Moreover, we need to widen our efforts to strengthen the international financial system. Our aim is to create an international financial system for the twenty first century that captures the full benefits of global markets and capital flows, minimizes the risk of disruption, and better protects the most vulnerable while promoting the international monetary stability which is an element of a stable international financial system. We will initiate further work on a number of other important areas to identify additional concrete steps to strengthen the international financial architecture. These include:
 - i. examining, in addition to the measures already described, the scope for strengthened prudential regulation in industrial countries to encourage sound analysis and careful weighing of risks and rewards, including consideration of appropriate

transparency and disclosure standards for all financial market participants;

- ii. further strengthening prudential regulation and financial systems in emerging markets by examining the scope for measures to increase the resilience of financial systems and to promote the adoption of international standards and best practice, for example by maximising market disciplines and other legal and regulatory means to motivate countries to adopt and enforce international standards and practices;
- iii. consideration of the elements necessary for the maintenance of sustainable exchange rate regimes in emerging markets, including consistent macroeconomic policies that promote stability in individual countries and in the system as a whole;
- iv. developing new ways to respond to crises, by exploring the possibilities of new structures for official finance the conditions of which would reflect better the evolution of modern markets, and by examining new procedures for coordination of the relevant international bodies and national authorities and for greater participation by the private sector in crisis containment and crisis resolution, including through the use of innovative financing techniques;
- v. assessing proposals for strengthening the IMF, so as to improve its programmes and procedures in crisis prevention and resolution; and assessing proposals for strengthening the Interim and Development Committees of the IMF and World Bank;
- vi. minimising the human cost of financial crises and encouraging the adoption of policies that better protect the most vulnerable in society.

21. The reform of the international financial system is in the interest of all countries and all need to be involved in the process. We therefore

commit ourselves to consult widely throughout the international community, particularly with emerging market and other industrial countries, to build a broad consensus in support of this declaration, and to encourage others to take similar action. We will therefore:

- i. ask the relevant international institutions and organisations to carry forward the proposals above and report back to us by the time of the Spring Meetings;
- ii. discuss these issues in other appropriate international fora, including the Interim Committee.

22. We will meet as necessary to monitor progress as envisaged at our meeting in Washington. We will report to G7 Heads before their meeting in Cologne on:

- i. the effect of the immediate action taken in restoring stability to the international financial system;
- ii. progress in implementing the reforms to the system to improve transparency and prevent crises on which we are agreed and which are set out above;
- iii. our proposals for action in the areas for further work set out above.