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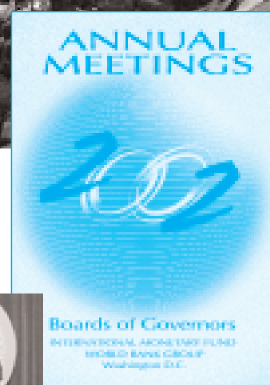
Annual Meetings

Ministers back new approach to sovereign debt workouts, vow to revive global economy

DAR Constitution Hall provided the venue for the plenary session of the 2002 Annual Meetings of the IMF and the World Bank.



From left, IMF Managing Director Horst Köhler, Swiss National Bank President Jean-Pierre Roth (Chair of the 2003 Annual Meetings), World Bank President James Wolfensohn, and Chair of the 2002 Annual Meetings, Ahmed Macki.

At the IMF–World Bank Annual Meetings during September 28–29, the world's top financial leaders agreed to step up efforts to prevent and resolve financial crises, such as those that have engulfed many emerging market economies in Latin America and east Asia since the mid-1990s. The IMF's ministerial steering committee—the International Monetary and Financial Committee (IMFC)—directed IMF management to prepare a concrete plan for a statutory sovereign debt restructuring mechanism by its next meeting in spring 2003.

Under the plan, a country with an unsustainable debt burden would be able to enter into something akin bankruptcy proceeding. The hope is that, by enabling nearly bankrupt countries to renegotiate loans with their creditors more easily, the severity of debt crises will be lessened. This plan is part of a two-track approach that would include the insertion of collective action clauses in bond contracts, allowing a majority of creditors to determine whether there will be a debt renegotiation.

DAR Constitution Hall.

IMF Managing Director Horst Köhler, speaking to reporters after the IMFC meeting, insisted that a sovereign bankruptcy mechanism "will not undermine the credit culture in the global economy." Rather, "it's a last resort" that fills a gap in the international financial architecture. IMFC Chair Gordon Brown, the U.K. Chancellor of the Exchequer, noted that the ministers were meeting at a testing time for the world economy, with 20 countries accounting for half the world's output having been in recession at some point this year or last (see IMFC press conference, page 301).

Reviving the world economy

The need to revive the flagging world economy topped the IMFC's agenda. The committee said that "the global economic recovery is proceeding, although at a slower pace than expected earlier this year." In recent weeks, the IMF has cut its forecast for world output growth in 2003 to 3.7 percent, with 2.8 percent expected this year, up from 2.2 percent in 2001—citing a sell-off in global equity markets, a decline in investor risk appetite, softer than expected indicators for the past few months, further turmoil in parts of Latin America, and heightened risk of uncertainty and conflict (see *World Economic Outlook* story, page 318). Köhler and World Bank President James Wolfensohn said they viewed the global outlook with "realistic confidence," which, Wolfensohn suggested, stands somewhere between wild optimism and wild pessimism.

Bodil Nyboe Andersen, Danish Central Bank Governor, addresses the plenary session.

The IMFC said that it welcomed Brazil's commitment to sound policies and acknowledged the positive steps taken in recent months by Argentina to address its difficult economic situation. Köhler told reporters after the meeting that he was confident that Brazil would avoid a debt restructuring because of its huge potential for growth, job creation, and trade; the remarkable improvement in its economic, financial, and monetary fundamentals over the past year; and the fact that the major presidential candidates have endorsed the crucial elements of the IMF program with Brazil.

Prime Minister Mari Bin Amude Alkatiri of the Democratic Republic of East Timor—the newest member of the IMF.

The IMFC called on the IMF's 184 member countries to "continue to be ready to adapt policies as necessary in order to foster broad and sustained growth, strengthen policy and regulatory frameworks, and support durable poverty reduction" (see IMFC communiqué, page 298). It urged Europe to forge ahead with structural reforms, especially in labor and product markets; the United States to strengthen corporate governance, accounting, and auditing; and Japan to vigorously pursue banking and corporate restructuring, especially by addressing the issue of nonperforming loans. It also called on industrial countries to open up their markets to developing countries and phase out trade-distorting subsidies.

Similar sentiment had been expressed on the previous day by the Group of 24 developing countries. Its communiqué called for "prompt and decisive actions in the United States, including through the effective implementation and enforcement of corporate governance legislation, to restore investor confidence." The ministers said that the continued decline in global equity markets and fragility of investor confidence in international capital markets had tightened financing conditions in emerging markets and was "intensifying the risks of a worldwide credit crunch" (see Group of 24 communiqué, page 311).

Helping the poorest

After the IMFC meeting on September 28, the Development Committee, chaired by South African Finance Minister Trevor Manuel, focused on ways that the global community could convert the ideas and shared approaches agreed on in Doha, Monterrey, and Johannesburg to concrete action (see Development Committee communiqué, page 304). Manuel told a press conference that "we have jawed about this enough, and we must now focus on issues of implementation." Wolfensohn added that he sensed "a new commitment" not only to writing checks but also to tackling the issues of trade and subsidies.

But at a press conference of African finance ministers on September 28, Ali Bedjo Gamatie of Niger cautioned that Africa needs to be realistic. "There is an emotional dimension to agricultural products in the United States and in Europe," he said, adding that as long as the industrial countries can afford to subsidize their farmers, they will.

On debt relief for the heavily indebted poor countries (HIPCs), most of which are in Africa, the world's top financial leaders reaffirmed their commitment to the full financing of the joint IMF–World Bank HIPC Initiative—which means filling a shortfall of about $1 billion in the HIPC Trust Fund.

The IMFC also welcomed the IMF's recent adoption of new guidelines on conditionality, the outcome of a review initiated by Köhler two years ago. "The consistent implementation of these guidelines will help enhance the effectiveness of IMF-supported programs by fostering national ownership and streamlining conditionality, focusing it on elements critical to the success of members' economic programs," the communiqué said. ■