

# Statement of G-7 Finance Ministers and Central Bank Governors

September 25, 1999 Washington, DC

1. We, the Finance Ministers of the G-7 countries, the Central Bank Governors of Canada, Japan, the United States, and the United Kingdom, the Euro-11 Presidency, and the President of the European Central Bank, met today with the Managing Director of the International Monetary Fund to review recent developments in the world economy. The Finance Ministers and Central Bank Governors of the G-7 countries reviewed the progress underway towards strengthening the international financial architecture; new strategies for addressing poverty reduction in the poorest developing countries; building on the Cologne HIPC Initiative; and other issues.

## Developments in the World Economy

2. We welcomed the improvement in prospects for recovery in the major industrial economies and the world economy as a whole. At the same time, we noted that we still face a number of challenges in fostering a strong and sustained world recovery with financial stability to promote improved living standards.

3. The improved global economic outlook has been characterized by the beginnings of a foundation for balanced and widely shared growth in the major industrial countries; a solidifying recovery in emerging markets in Asia; signs of stability and even incipient recovery in some of the other emerging markets that have come under pressure; more differentiation in financial markets about risk in emerging market economies, with some resumption of financing flows; and an environment of low inflation. In general, the balance of risks in emerging market economies suggests a continuing need to focus on reform to promote the basis for lasting growth.

## G-7 Economies

4. We reaffirmed the importance of progress in achieving a more balanced pattern of growth among the G-7 economies.

5. We pledged to continue to work cooperatively to improve the international economic outlook and to strengthen financial stability.

- In the United States and Canada, prospects are favorable for another year of solid growth and job creation in a low-inflation environment. Policies will be directed to sustaining growth on a long-term basis by maintaining improved fiscal conditions and, in the United States, increasing national saving.
- Growth in the United Kingdom has strengthened during this year. Economic policies will continue to aim at sustaining growth and employment while meeting the government's inflation target and fiscal rules.
- Overall prospects in the euro area have improved significantly, with stronger domestic demand. An appropriate mix of macroeconomic and structural policies aimed at strengthening growth and employment over the medium term will continue to be important.
- Japan's economy has shown signs of positive growth, although prospects for continued recovery in private demand remain uncertain. In these circumstances, and in view of the yen's appreciation, the Japanese authorities reiterated their intention to implement stimulus measures until domestic-demand-led growth is solidly in place and, in the context of their zero interest rate policy, to provide ample liquidity until deflationary concerns are dispelled. Banking system strengthening measures, including bad asset disposal, and structural reforms will continue to be important.

## **The international monetary system and exchange rates**

6. We discussed developments in our exchange and financial markets. We shared Japan's concern about the potential impact of the yen's appreciation for the Japanese economy and the world economy. We welcomed indications by the Japanese authorities that policies would be conducted appropriately in view of this potential impact. We will continue to monitor developments in exchange markets and cooperate as appropriate.

## **Emerging Market Economies**

7. We discussed financial and economic developments in emerging markets. We welcome the return of more stable conditions in many countries and early signs of renewed economic growth in many Asian nations. Along with appropriate macroeconomic policies, we stress the importance of full implementation of reforms in the financial and corporate sectors to promote a resumption of strong sustainable growth. In Latin America, growth is expected to resume across the region next year, as the financial turbulence of the last year has receded and commodity prices have increased. However, a number of countries need to support a resumption of growth and low inflation through sound macroeconomic policies and deepening of economic reforms, including strengthening of the financial sector, which will be crucial in supporting the external financing environment.

## **Russia**

8. We welcome the recent signs of improvement in the Russian economy, although we note that they may be the result of transitory or external factors. We urged the Russian authorities to step up the process of economic reforms on which a sustained increase in living standards and a reduction in the level of capital flight will depend. The IMF and the World Bank have played a critical role in supporting the difficult and complex process of Russia's economic transition. It is important that they have the capacity to continue to help the Russian authorities shape a credible program of reform and institution-building; the capacity of the IMF and World Bank to help bring about effective policies depends upon the will and capacity of Russian authorities and the Russian people to carry forward reforms in their national interest.

9. 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 arrangement (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.

10. We welcomed the commitment of the Russian authorities to strengthen its capacity to combat money laundering, to resubmit to the Duma for passage, at the earliest possible

opportunity, a strong anti-money laundering law in conformity with international standards and to cooperate fully with cross-border money laundering investigations.

### **Kosovo and Southeast Europe**

11. We look forward to the September 28 meeting of the High Level Steering Group, which has been tasked by the G-8 Leaders with guiding the economic assistance strategy for Kosovo and Southeast Europe. We reaffirmed the importance of progress towards agreement on the interim economic policy framework and administration for Kosovo; ways to accelerate economic reform in Southeast Europe as a whole; and regional integration initiatives that would yield the greatest economic benefits.

### **Debt Reduction and Poverty Reduction**

12. At the Cologne Summit in June, our Leaders agreed on a framework to enhance the Heavily Indebted Poor Country (HIPC) Initiative which would provide:

- faster, deeper, and broader debt relief;
- for the international financial institutions (IFIs) to help make it possible for three-fourths of eligible countries to reach their decision points by 2000 and for the remaining countries to embark on the HIPC process as soon as possible; and,
- a strengthened link between debt relief and poverty reduction.

As a key part of this framework, we emphasize the importance of a new, coordinated approach by the World Bank and the IMF to support, consistent with their mandates, a growth-oriented strategy aimed at reducing poverty and stressed the importance of its effective implementation. In that context, we welcome tomorrow's joint session of the Interim and Development Committees to discuss HIPC. We also welcomed the Managing Director's intention to announce a successor arrangement to the Enhanced Structural Adjustment Facility (ESAF) to be called the Poverty Reduction and Growth Facility. The new integrated strategy should promote good governance and be based on five pillars:

- increased and more effective fiscal expenditures for poverty reduction, with better targeting of budgetary resources, especially on social priorities in basic education and health, including the prevention and treatment of AIDS and measures to improve child survival;
- enhanced transparency, including monitoring and quality control over fiscal expenditures;
- stronger country ownership of the reform and poverty reduction process and programs, involving public participation;
- stronger monitorable performance indicators for follow-through on poverty reduction; and,
- ensuring macroeconomic stability and sustainability, and reducing barriers to access by the poor to the benefits of growth.

13. The IMF has identified ways to cover its costs from its own resources without impairing its financial integrity. We look forward to the Interim Committee settling this issue at its meeting tomorrow. In relation to the World Bank and IDA, we welcomed progress towards a solution that would enable the Bank, using the resources available to it, to finance substantially all of the costs of its participation in the expanded HIPC initiative without compromising its ability to deliver concessional resources, and look forward to the resolution of this issue in the Development Committee. Taking this into account, we reaffirmed our commitment going forward to ensuring an adequate supply of multilateral concessional resources for the poorest countries. We have also agreed to consider in good faith bilateral

contributions, based on appropriate burden sharing as agreed in Cologne, to an expanded HIPC Trust Fund, to meet the costs falling to the multilateral development banks, in particular the African Development Bank and the Inter-American Development Bank. We and other bilateral creditors have borne and will continue to bear the greatest part of the cost of the HIPC initiative by forgiving 100% of ODA debt and up to 90%, and more if necessary, of commercial debt in the Paris Club. We repeat our call for all other creditor countries to forgive bilaterally, based on a menu of options, all ODA debt and urge all bilateral creditors to make future official development assistance to HIPCs primarily in the form of grants to help ensure that they do not face debt problems in the future.

14. On this basis, we urge the international financial institutions, bilateral creditors and donors to implement the Cologne framework quickly. The next eligible countries to come forward for HIPC relief will be treated under this framework, which will also be applied retroactively to those that have already received HIPC relief.

### **Open and competitive international markets**

15. Open and competitive international markets for trade and investment are essential for efficient global resource allocation, sustainable growth, stability and shared prosperity. We support the launch of a new trade round.

16. We also encourage the IMF and World Bank to renew their commitment to coherence in global economic policy making in partnership with the WTO, with due regard to their respective roles in the global economy. They should make progress in coordinating programs of support for developing countries, recognizing and reinforcing the efforts of developing countries to negotiate and implement multilateral trade commitments, including the necessary structural reform, allowing them to secure the full benefits of participation in the world trading system.

### **Strengthening the international financial and monetary**

17. We reviewed the state of work to strengthen the international financial architecture in line with the plan that G-7 Finance Ministers set out at the Cologne Summit in June in their report to G-7 Heads of State or Government on Strengthening the International Financial Architecture. We noted with satisfaction work that had been done since the Cologne Summit, and we will continue to work to ensure the full implementation of all of the reforms that were endorsed at the Cologne Summit. Looking forward, we attach particular importance to reducing the vulnerabilities to financial crisis of individual countries and of the system as a whole and fostering well-functioning international capital markets by implementing the agreed G-7 framework on private sector involvement in crises. These priorities, and progress made in other areas, are highlighted in the annex to this statement.

18. In our June Report to Heads, we underlined the importance of enhancing the global economic and financial arrangements to reflect the changing nature of the world economy. Consistent with that, we support steps to reinforce the role of the Interim Committee, by transforming it into the permanent "International Monetary and Financial Committee" and by holding preparatory meetings at the Deputy-level twice a year.

19. In addition, as agreed in Cologne, we propose to establish a new mechanism for informal dialogue in the framework of the Bretton Woods institutional system, to broaden the dialogue on key economic and financial policy issues among systemically significant economies and promote cooperation to achieve stable and sustainable world economic growth that benefits all. We believe that discussions held in this group will prove useful to complement and reinforce the role of the governing bodies of the Bretton Woods institutions.

Accordingly, in December in Berlin, we will invite our counterparts from a number of systemically important countries from regions around the world to launch this new group. The EU Presidency and European Central Bank will be invited. In addition, to ensure effective liaison with the IMF and World Bank, we will invite the World Bank President, IMF Managing

Director and Interim and Development Committee chairmen to serve as ex officio members of the group. We are grateful to Paul Martin of Canada for agreeing to lead this group as Chairman for its first two years.

20. We note the importance of work underway in the Financial Stability Forum and look forward to recommendations in the areas of highly-leveraged financial institutions, capital flows and offshore financial centers in the spring.

### **Anti-Corruption**

Recent events highlight the importance of fighting corruption and financial crime.

21. In this context, we discussed the broad implications of corruption and money laundering on the credibility and effectiveness of IFI programs. This is a complex issue which is critical to the integrity of the IFIs. We therefore call on the IMF and the World Bank to perform an authoritative review of their procedures and controls and those of recipients of IMF and World Bank credit to identify ways to strengthen safeguards on the use of their funds. The reviews should also identify ways to strengthen governance and anti-corruption measures in programs supported by the IMF and World Bank. In particular, we encourage the IMF to look at the potential to expand circumstances under which advance repayment can be required and more broadly, as we proposed in June, to pursue enhanced monitoring of policy commitments while drawings on the Fund remain outstanding but after program conditionality has ended. More broadly, we will also urge the international financial institutions to encourage countries, in the context of financial sector reform programs, to adopt anti-money laundering policies and measures. We draw the attention of all firms and institutions participating in financial markets to the importance of robust systems for alerting them promptly and effectively to financial flows that may involve the laundering of the proceeds of crime.

22. We remain committed to confront the threat of international corruption to investment and economic growth and to the ability of countries to respond to financial crises. We will work for full ratification and implementation of the OECD Anti-Bribery Convention and for complete elimination of tax deductibility for bribes. We also will continue to urge the multilateral development banks to develop uniform procurement rules and documents, and we will encourage all official international financial institutions to increase their activities to promote good governance and public sector integrity and to combat all forms of corruption.

23. We are deeply concerned there has been growth in illicit international financial transactions, including money laundering, broad scale tax evasion, and other financial crimes. We will therefore ensure that our experts on such matters will coordinate and actively seek to contribute to ongoing efforts to address these problems through mutually reinforcing initiatives within the Financial Action task Force (FATF) and the Organization for Economic Cooperation and Development (OECD). We are pleased that the FATF Ad Hoc Group on Non-Cooperative Countries or Territories has now defined the criteria against which countries and territories are to be measured, and we encourage the FATF now to identify countries and territories that appear to meet those criteria, begin to consult with them, and, if consultations are not productive, recommend action designed to convince them to modify their harmful laws and practices to protect the international financial system against criminal proceeds.

### **Harmful Tax Competition and International Tax Evasion**

24. We reaffirm our support for the work of the OECD's Forum on Harmful Tax Practices in implementing the guidelines and recommendations adopted by the OECD with respect to the harmful effects of unfair tax practices. We strongly endorse the work program of the Forum, in particular the efforts to identify tax havens and to engage in dialogues with jurisdictions identified through this process. We are encouraged by the willingness of jurisdictions to engage in a dialogue aimed at reforming harmful practices in the tax area and we urge that the Forum's work continue to be given a high priority. We also support the ongoing work of

the OECD regarding harmful tax practices in member countries and note the EU's work to implement the code of conduct.

25. We welcome the recent progress by the FATF to require reporting of suspicious transactions regardless of whether they are also thought to involve tax matters and we encourage further cooperation between the OECD's Committee on Fiscal Affairs and the FATF to explore further the links between tax evasion and avoidance and money laundering, and in particular to ensure the effective flow of information to tax authorities without undermining the effectiveness of anti-money laundering systems. We continue to support efforts within the OECD to improve information exchange between tax authorities by addressing the barriers imposed by excessive bank secrecy rules.

### **Year 2000 Problem**

26. We discussed our preparations for Y2K and arrangements for dealing with any international liquidity problems that might arise around the century date change. It remains important that public and private sector officials press forward this autumn with contingency plans in the financial sector and between the financial sector and other critical sectors, such as power and telecommunications. We welcome the establishment by the IMF of a temporary, special facility to enable it to respond promptly if Y2K-related balance-of-payment difficulties arise in its member countries.

## **Financial Architecture - Annex**

1. G-7 Finance Ministers and Central Bank Governors reviewed the progress made so far to strengthen the international financial architecture in line with the plan set out at the Cologne Summit in June in the Finance Ministers' report on Strengthening the International Financial Architecture and agreed on priorities for further work.

- The Financial Stability Forum met on September 15<sup>th</sup> to review the progress made by the three working groups which it has established to take work forward on highly-leveraged institutions, capital flows, and offshore financial centers. Reflecting our earlier commitment to expand membership in the Forum to include significant financial centers, in a format that provides for effective dialogue, four new members of the Forum - Australia, Hong Kong, the Netherlands and Singapore - participated in this meeting.
- We look forward to the final reports of the Financial Stability Forum's working groups on highly-leveraged financial institutions, capital flows and offshore financial centers in the spring. We also look forward to the results, anticipated by the Forum's spring meeting, of work on development of international best practices for deposit insurance schemes, and, later in 2000, to ongoing efforts to assess the desirability and the feasibility of enhanced public disclosures by financial institutions.
- - To build stronger financial systems, the IMF and World Bank have developed proposals to work more closely on financial sector issues, and the Financial Stability Forum has drawn together a prototype compendium of standards and best practices, now available on its web-site, which when fully developed should be a valuable tool for promoting the implementation of standards. We discussed the IMF proposal for a mechanism for surveillance of implementation of the internationally-agreed codes of transparency and standards of best practice. We agree that this surveillance process should be carried out on a modular basis covering a wide range of standards and codes, with the Fund responsible for its core areas of expertise, and other institutions, such as the World Bank, OECD and Basel Committee, taking responsibility for other areas. The IMF's Article IV process should be placed at the center of this surveillance process, building on input from other institutions as necessary. We look forward to further refinements to the FSF compendium, including mechanisms for countries to publicly state their intentions to implement standards. We also look forward to further strengthening of the SDDS at the next review to include indicators of financial sector soundness.
- To help ensure that social policies are in place to ease adjustment during times of crisis and prevent the burden of adjustment from falling disproportionately on the poorest and most vulnerable groups in society, the World Bank is working to develop principles and good practices in social policy. These now need to be given operational effect so that IMF and World Bank programs take full account of the social dimensions.

2. We will continue to work to ensure the full implementation of all of the reforms that were endorsed by our Heads of State and Government at the Cologne Summit. Looking forward, we plan to emphasize three major areas:

### **I. Reducing Vulnerability to Crises**

3. We will continue our efforts to reduce the vulnerabilities to financial crisis of individual countries and of the system as a whole. Specific steps in this area include:

- We reaffirm our view that the international community should not provide significant official financing for a country intervening heavily to support a particular exchange rate level, except where that level is judged sustainable and certain conditions have been met, such as where the exchange rate policy is backed by a strong and credible commitment with supporting arrangements, and by consistent domestic policies.

Further work is needed on appropriate exchange rate regimes for emerging market economies. The choice of regime is critical for their economic development and financial and economic stability, and it also has important implications for the world economy. We call on the IMF to focus on this issue, in the context of its surveillance and program work. We look forward to discussing this issue at the spring meetings.

- We have improved our understanding of the important issues involved in managing the risks posed by large-scale capital flows - including the importance of sound financial systems and strong prudential frameworks in this context, country experiences with the use and liberalization of capital controls, and the need for proactive monitoring of the overall currency and maturity composition of a country's financial obligations and the need for prudent management of debt and liquidity. We welcome the impetus provided the FSF to the joint work of the IMF and the World Bank, in co-operation with national debt management experts, to develop a set of best practices in public debt management by the spring to assist countries in their efforts to reduce vulnerability.
- We welcome the closer cooperation between the IMF and World Bank on financial sector issues, and call for further improvements in the coordination of their advice to emerging economies in this and other areas. In addition, we welcome the work that will soon commence, within the Forum to further promote implementation of financial and economic policy standards, including prioritization of core standards contained in the Compendium; development of incentives for national implementation of these standards; consideration of institutional responsibilities for assessing implementation; technical assistance to enhance the capacity of countries to implement standards; and mobilizing the human resources required to perform such assessments.

## **II. Implementing the Cologne Framework on Private Sector Involvement in Crisis Resolution.**

4. We will continue to support approaches to specific cases within the framework of principles and tools that we endorsed in our Report on Strengthening the Financial Architecture in June. These were aimed at fostering well-functioning international capital markets that would support a stable flow of finance to emerging markets that reflected market judgements of countries' economic and financial prospects.

5. Recent experience has confirmed the need to maintain sufficient flexibility to address diverse cases effectively as we move forward to apply the framework we laid out in Cologne. When a country's underlying capacity to pay is strong and prospects for the spontaneous restoration of market access on viable terms are good, the combination of official financing and policy adjustment should allow the country to regain full market access with voluntary approaches. In other cases, the early restoration of full market access on terms consistent with medium term external sustainability may not be realistic, and the use of a broader spectrum of tools may be warranted to provide for an adequately financed program and a sustainable medium term payments profile. In these cases, responsibility lies with debtors and creditors to work cooperatively to find a solution to the country's debt problems within the context of an IMF program that addresses the country's immediate financing gap, provides an appropriate balance between official and private financing, with Paris Club comparability as appropriate, and is sustainable over the medium term. No one category of credits should be regarded as inherently privileged relative to others in a similar position.

We attach a high priority to this in building a constructive dialogue with private market participants and emerging markets aimed at communicating the improvements in crisis management which we aim to achieve through this approach. And we look forward to making further progress in our examination over the next year of establishing mechanisms to prevent financial crises within the context of the framework agreed upon in June.

### **III. Safeguards to Ensure the Proper Use of IFI Funding**

6. Recent events highlight the importance of fighting corruption and financial crime. Our statement emphasizes the broad implications of these problems for the credibility and effectiveness of IFI programs. This complex issue is critical to the integrity of the IFIs. We remain committed to confront the threat of international corruption to investment and economic growth and to the ability of countries to respond to financial crises.