

Communiqué of G-7 Finance Ministers and Central Bank Governors

February 20, 1999

Petersberg, Bonn

1. We, the Finance Ministers and Central Bank Governors of the G7- countries and Wim Duisenberg, President of the European Central Bank met today with Michel Camdessus, Managing Director of the International Monetary Fund, to review recent developments in the world economy. Ministers and Governors also discussed international financial architecture issues.

Developments in the World Economy

2. We discussed developments in our own economies and in the rest of the world. Since our last statement of October 30 there have been some encouraging developments such as the economic and financial stabilisation in Asia, calmer financial markets in industrialised countries, interest rate cuts in the U.S. and Europe and most recently in Japan, progress made to implement policies to strengthen the financial system and stimulate the economy in Japan, and the successful introduction of the euro. But financial market conditions have worsened in some regions and the outlook for global economic growth is somewhat less favourable. The impact of financial crises is now felt beyond the regions where the crises occurred. Against this background, it is of the utmost importance to strengthen in all countries the foundations for sustainable growth of output and employment, social stability and the macroeconomic conditions for financial market stability.

G-7 Economies

3. We remain committed to a domestically based growth strategy that would contribute to achieving more balanced growth among our countries, reducing external imbalances and supporting recovery in emerging market economies. The outlook for price stability in our countries as a whole remains favourable.
4. In view of the challenges facing each of our economies we reaffirm the importance of intensified cooperation among us:

- In the United States and Canada economic growth is expected to slow gradually, but the overall economic outlook remains favourable. In these countries, policy should be directed at maintaining necessary conditions for sustainable growth.
- In the United Kingdom growth is expected to be lower than last year but to recover thereafter. With a less inflationary outlook, interest rates have been reduced sharply and economic policies will continue to help create the conditions for sustainable growth.
- In the euro area growth expectations for 1999 have been lowered. The magnitude of the slowdown may differ among these countries. They agree on the importance of pursuing an appropriate mix of macroeconomic policies and structural measures aimed at promoting strong and sustainable domestic led growth and fostering employment.
- In Japan short-term prospects remain uncertain. The Japanese authorities have adopted important steps to strengthen the financial system and macropolicies to reinforce growth led by domestic demand and need to push ahead with the implementation of their policies directed to those ends.

We welcome the successful introduction of the euro in eleven member states of the European Union. The euro has been well received in the international financial and foreign exchange markets. The introduction of the euro helped avoid spill overs of turbulences to financial markets in Europe. Economic and monetary policies of the euro area will have significant implications for the stability of the global financial and monetary system.

The international monetary system and exchange rates

5. In view of the increasing integration of the world economy and financial system we have a special responsibility with regard to improving the conditions for a proper functioning of the international financial and monetary system and, in particular, enhancing sound fundamentals necessary for exchange rate stability. To this end, we will maintain strong cooperation to promote stability of the international monetary system and to promote exchange rates among major currencies that are in line with fundamentals.

6. We discussed developments in our exchange and financial markets since our last meeting. We reaffirmed our view on the importance of pursuing policies to help avoid excess volatility and significant misalignments of exchange rates of major currencies. We will continue to monitor developments in exchange markets and cooperate as appropriate.

Open Markets

7. We confirm our strong commitment to open, fair, competitive and dynamic international trade. The rules-based international trading system has shown its potential to create the necessary demand and underpin sustainable growth and stability in the global economy. We look forward to the launch of a new round of trade negotiations in the US in November with a balanced agenda of interest to all WTO member countries. We support a World Trade Organisation, and trade agreements, which are responsive to the challenges of global markets and the concerns of citizens throughout the world.

Emerging Market Countries

8. We discussed financial and economic developments in emerging markets. We welcome the progress in restoring financial stability and strengthening the foundations for economic growth in many Asian countries. In other regions, notably Latin America, outlook for growth has deteriorated since last year while the external financing environment has become more difficult. It is crucial for the countries in the region to pursue appropriate policies, including institutional, structural, macroeconomic and exchange rate policies, and, where necessary, to reinforce existing economic programs, as the best way to respond to financial markets pressure.

Russia

9. We met with representatives of the Russian Federation to discuss recent developments in Russia. The economic situation in Russia continues to give cause to concern. In the absence of a concerted policy response to ongoing financial and macroeconomic instability, the country is increasingly faced with the serious risk of accelerating inflation, further exchange rate weakening, and continued economic contraction. A viable budget for 1999, significant improvement in government revenues and sufficient progress in institutional and structural reforms are necessary for an agreement with the IMF and for economic recovery. We expressed once again our concern regarding the accumulation of arrears on debts due by Russia. Russia's debt would only be considered by Paris

Club creditors in the context of an agreement on an economic program supported by the IMF. Ministers and Governors of the G7 also stressed the importance they attach to Russia's treating its obligations to all creditors comparably.

Brazil

10. Concerns about the implementation of the Brazilian reform program led to renewed pressures on the exchange rate of the Real and eventually to an abandonment of the exchange rate peg. We welcomed the commitment of the Brazilian authorities to a strengthened economic program designed to prevent an initial rise in prices associated with the sharp depreciation of the Real from leading to a general inflationary spiral and to pursue a strong program of fiscal adjustment. Under present circumstances it is of utmost importance to restore confidence. Thus, we urge the Brazilian authorities to continue with their reform efforts while paying due attention to social needs. We reaffirm our commitment to support a strong IMF program and recall the importance of a strong involvement of the private sector creditors in restoring financial stability in Brazil.

Köln Debt Initiative

11. We had an exchange of views about the situation of the poorest highly indebted countries and reiterated our continuing view that maximum progress should be made in the next year. We agree that the fundamental review and the development of the HIPC Debt Initiative provide the appropriate framework to address the debt problems of these countries. We stressed the importance of improving the HIPC Debt Initiative and discussed proposals from a number of G 7 partners for achieving this, for example, by reviewing the duration and the criteria for debt reduction. We will discuss these issues with a view to reaching agreement by the time of the Köln summit. We stressed the importance of fair burden sharing among creditors and of ensuring that sufficient resources are available to finance the share of the multilateral creditors, using existing resources insofar as possible and agreed to work to this end.

Strengthening the international financial and monetary system

12. We reviewed progress of the ongoing work on strengthening and increasing the transparency of the international financial architecture. Since our statement of October 30 there has been important progress in the following areas:

- The IMF quota increase and the New Arrangements to Borrow have become effective. Together this provides the IMF with additional resources of SDR 66 billion to be used to safeguard the stability of the international monetary system.
 - To strengthen the IMF's Special Data Dissemination Standard (SDDS), we agreed on a comprehensive format for full information on reserves and urge action by the IMF's Executive Board to adopt this standard in advance of the April Interim Committee Meeting. We ask the IMF to further strengthen the SDDS by including more complete information on external debt and the international investment position of a country.
 - We support the progress made by the IMF, working in close cooperation with the BIS, central banks and other relevant authorities, in developing a code of best practices for monetary and financial policy transparency, the completion by the IASC of its core set of internationally agreed standards and the progress the OECD has made on its principles of corporate governance.
 - We welcomed the substantial progress in developing an enhanced IMF facility providing a contingent short-term line of credit, accompanied by appropriate private sector involvement. We will work at the IMF to ensure that this facility is introduced as soon as possible.
 - We agree that the international financial institutions must play a prominent role in facilitating cooperation among all countries, especially in the area of macroeconomic and monetary issues that are at the centre of the IMF's mandate as stated in Article 1 of its Articles of Agreement. To this end, we all agree to consider ways to improve the IMF programs and procedures in crisis prevention and resolution, and appropriate institutional reforms, including of the Interim and Development Committees.
13. We discussed the effects of economic adjustment on the most vulnerable groups in society, and reaffirmed the importance we attach to the work on general principles of good practice in social policy being taken forward in consultation with other organisations. We will work together to ensure that these principles can be brought into operational use as quickly as possible, to be used in the design of adjustment programs by the World Bank, the IMF and their member countries.
14. We discussed and endorsed the recommendations by the Basle Committee on Banking Supervision on how to mitigate risks involved in dealing with Highly-Leveraged Institutions

(HLIs) including hedge funds. We also noted that IOSCO and other relevant bodies were also working on HLI issues and looked forward to receiving their reports shortly. We agreed with the Basle Committee that adequate risk management by financial institutions is particularly important when they deal with HLIs. We are committed to continuing to consider, in a broad context, implications arising from the operations of HLIs and of offshore centres on the framework of financial supervision, including whether additional reporting and disclosure by HLIs themselves is warranted or feasible.

Financial Stability Forum

15. We are grateful to Hans Tietmeyer for his report on international cooperation and coordination in the area of financial market supervision and surveillance. We welcome his proposal that the G-7 should take the initiative in convening a Financial Stability Forum to ensure that national and international authorities and relevant international supervisory bodies and expert groupings can more effectively foster and coordinate their respective responsibilities to promote international financial stability, improve the functioning of the markets and reduce systemic risk.

While the Forum will initially be the initiative of the G 7 countries, we envisage that over time additional national authorities would be included in the process. The issues to be addressed affect all countries, including both industrial and emerging market economies, and the G 7 regards this initiative as a step toward broader participation.

- We agreed that the Forum will meet regularly to assess issues and vulnerabilities affecting the global financial system and identify and oversee the actions needed to address them, including encouraging, where necessary, the development or strengthening of international best practices and standards and defining priorities for addressing and implementing them.
- We agreed that the Forum will be comprised of representatives of national authorities responsible for financial stability, the relevant international financial institutions and organisations as well as the relevant international supervisory bodies and expert groupings. The Forum will be supported by a small secretariat located in Basle. Its first chairman will be Mr Andrew Crockett, General Manager of the BIS, for a term of three years. We ask our Deputies to make the necessary preparations so that the first meeting of the Forum could be held in Spring 1999.

Next steps

16. We will continue to work to ensure implementation of all the reforms which we agreed in our Declaration of October 30 1998. A plan for implementation presented to the G 7 Heads in December 1998 is attached as an annex. Our work between now and the Köln summit will focus on the scope for strengthened prudential regulation and supervision in industrial countries and further strengthening financial systems in emerging market economies; exchange rate regimes in emerging market economies, crises response and greater participation by the private sector in crisis containment and resolution; proposals for strengthening the IMF and the Interim and Development Committees; and minimising the human cost of financial crisis.

17. We will intensify the discussion of these issues among ourselves but also with other industrialised and emerging market economies. A first seminar involving a representative group of industrialised and emerging countries will take place on March 11 in Germany. This seminar will be devoted to exchange rate regimes, private sector involvement in crisis resolution and to proposals for strengthening the IMF and the World Bank. A second seminar will take place in the United States in April to discuss issues of prudential oversight in industrial countries, strengthening financial systems in emerging market countries, and minimising the human cost of crisis and encouraging the adoption of policies that better protect the most vulnerable in society.

We welcome the initiative of Carlo Ciampi to hold a special preparatory meeting at the deputies level for the next Interim Committee of April to help advance reforms of the international monetary system.