

BANK OF BOTSWANA

PRESS RELEASE

Governor Returns from the International Monetary and Financial Committee (IMFC) Meeting

The Governor of the Bank of Botswana, Mrs Linah Mohohlo, has just returned from Washington DC where she took part in the meeting of the International Monetary and Financial Committee (an advisory body of the Board of Governors of the International Monetary Fund), representing the Africa 1 Constituency which comprises 21 countries (Angola, Botswana, Burundi, Ethiopia, Eritrea, Gambia, Kenya, Lesotho, Liberia, Malawi, Mozambique, Namibia, Nigeria, Sierra Leone, South Africa, Sudan, Swaziland, Tanzania, Uganda, Zambia and Zimbabwe).

The IMFC reviewed the world economic performance in 2001, discussed the prospects for 2002 and exchanged views on the required policy responses in the period ahead. As part of the required policy responses, the policy agenda of the International Monetary Fund (IMF) was examined, including its role in combating money laundering and the financing of terrorism.

On the world economic outlook, it was observed that the recessionary trend in the world economy which had been evident prior to the September 11, 2001 events had reversed. It was, nevertheless, noted that the 2.5 percent growth of the world economy in 2001 was slower than the 4.7 percent expansion in 2000, with reduced performance in all major economic regions. In advanced countries, the reversal of the economic trend was mainly due to the proactive and aggressive monetary policy easing in the US, together with fiscal stimuli, which were supported by the speed of corporate sector adjustments in response to market changes. For emerging market and developing economies, the better-than-expected outturn in 2001 benefited mostly from implementation of structural reforms, improvements in some commodity prices, which moderated the adverse effects of the rise in oil prices, and the abatement of civil strife in some African countries.

It is projected that in 2002 the global economic expansion will accelerate. Despite optimism on the world economic prospects, the IMFC pointed to the need to address the persistent structural problems in Europe, Japan and emerging markets, especially Argentina and Turkey. The meeting also expressed concern on the threat to the sustainability of the expected robust economic performance in 2002 and 2003, given the uncertainty on the exchange rate effects of the unwinding of the US large current account deficit, and on the outlook for world oil prices.

The discussions on the policy agenda focussed on the importance of enhancing the capability of the IMF in crisis prevention and resolution, its supportive role for low-income countries, including the need to streamline conditionality on lending. The IMFC also urged the IMF to broaden the consultative process in member countries to include cabinets, parliamentarians, non-governmental organisations and the general public, with a view to promoting national ownership of the various programmes. Similarly, the IMF was encouraged to expand its cooperation with appropriate multilateral institutions, such as the World Bank and the UNDP, in dealing with issues that fall outside its mandate, but which are critical to success in the implementation of economic programmes of the member countries.

While stressing the role of IMF surveillance in crises prevention, the IMFC pointed out that surveillance should include the elimination of trade and other distortions to global economic growth such as agricultural subsidies in both developed and developing countries. Furthermore, the IMFC appealed for the enforcement of international standards of corporate accounting and good governance in order to prevent the Enron-type crises.

As part of the deliberations on crisis resolution, it was agreed that IMF resources were limited and that enlarged access would require justification. There was also support for the principle that there should be

burden sharing between private and official lenders in resolving sovereign debt problems. Other proposals regarding sovereign debt crisis resolution included the possible need to revise national and international statutes in order to permit multilateral agreements and arbitration in borrowing contracts. Overall, the IMFC was of the view that, ultimately, a key element in crisis resolution is the adoption of a credible programme by member countries which can be supported by the international community.

The IMF was commended for measures so far taken to streamline conditionality for the use of its resources by low-income countries. Nevertheless, the IMFC pointed to the need for improving the rate of access to IMF resources under the Highly Indebted Poor Countries (HIPC) initiative, and recommended that the time-frame for the implementation of poverty reduction programmes and the corresponding availability of the resources from the Poverty Reduction and Growth Facility (PRGF) should be extended from 2 years to a range of 2-5 years. The IMF and the international community were also called upon to increase support for post-conflict programmes and top-up debt relief in the event of unexpected deterioration of economic fundamentals of the HIPC countries following completion of a poverty reduction programme, as this could facilitate sustainability of the debt burden.

The IMFC acknowledged progress made by its member countries in implementing measures to combat money laundering and the financing of terrorism. However, the IMFC was of the view that the IMF should not be involved in law enforcement aspects of the measures put in place by member countries. It was further pointed out that the implementation of measures to fight money laundering and the financing of terrorism require sophisticated skills and the establishment of appropriate infrastructure. Hence, the IMF and the international community were called upon to provide technical assistance in this area.

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