

## "Declaration of G7 finance ministers and central bank governors".

1. 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 U.S., 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 in 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; 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;

The facility would be accompanied by appropriate private sector involvement; 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 of policy-making procedures and 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 the 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 under way 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 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 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 organisations including hedge funds and offshore institutions. Appropriate means should be sought to encourage off-shore centres to comply with internationally agreed standards. 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; 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 21st century that captures the full benefits of global markets and capital flows, minimises 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 macro-economic 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 (i) consult widely throughout the international community, particularly 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.