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International Financial Organizations

The international economic scenario in 2003 was marked by uncertainties regarding the still incipient recovery of the world economy and the possible aftermath of the war in Iraq. Over the course of the year, expectations that the process of economic recovery would gain momentum in 2004 were further strengthened, particularly as a result of the less stringent macroeconomic policies adopted by the major economies; high international liquidity and a greater willingness on the part of investors to accept risk, in the obvious benefit of the emerging economies; and clear improvements on the geopolitical scenario.

This was the context that defined the backdrop for the agenda adopted by international financial organizations, as they sought to consolidate the recovery and move forward with structural reforms that would make it possible for Europe and Japan to share responsibility for a sustained upturn in world growth with the United States. International organizations have given particular attention to the need for correcting imbalances in both fiscal and current accounts, since these factors could clearly imperil world economic performance over the medium term.

Debates on private sector involvement in resolving crises and on the conduct of sovereign debtors in situations of default continued during the year in the IMF framework and within the G-20 (encompassing the G-7 countries, several other mature economies and the major emerging countries) and directly between emerging economies and private investor associations. Collective Action Clauses (CAC), a mechanism that defines criteria covering possible alteration of the financial terms of contracts in those exceptional cases in which restructuring may be required, have been widely adopted in sovereign issues placed on international markets.

International Monetary Fund (IMF)

The IMF was created in 1945 and currently has 184 member countries. The organization's primary function is to foster international monetary cooperation, pursue exchange stability, generate economic expansion and high levels of employment and provide temporary financial assistance to countries during periods of balance of payments adjustment. Furthermore, it monitors and analyzes the economies of the member countries annually, while performing a variety of studies. Among the Fund's many publications, the most important are the WEO (World Economic Outlook) and the GFSR (Global Financial Stability Report), both of which are published at half-year intervals.

As part of its analysis and multilateral macroeconomic supervision activities, the Fund estimated 2003 world economic growth at 3.8%, compared to the 3% result registered in 2002. The volume of world trade in 2003 increased by 4.1% compared to the previous year, while the dollar prices of petroleum and other international commodities increased by 15.8% and 7.1%, respectively. Consumer inflation came to 1.8% in the developed countries, and 6.2% in the other nations.

Aside from analyzing the international economy and finances, the IMF also consults with the member countries according to the terms of Article IV of the Articles of Agreement. The purpose of these consultations is to analyze the macroeconomic situation of each member country, normally on an annual basis, while also performing Program Reviews. In general, these reviews are quarterly and are only performed when a particular country has a Financial Assistance Program sponsored by the Fund. These tasks constitute an indispensable source of information used by Banco Central do Brasil in monitoring the international economy.

The IMF's agenda can be described as an ongoing effort to restructure the international financial system through development of more effective mechanisms for preventing and dealing with crises, including statistical tools designed to issue alerts of oncoming crises, while issuing supervisory reports. With the overall aim of making its monitoring activity more transparent, the IMF adopted a Resolution that presumes publication of consultation reports under the terms of Article IV, provided that publication be authorized by the authorities of the evaluated country.

In the framework of its deliberations on initiatives targeted at crisis resolution, in 2003 the IMF Executive Board concluded its discussions on the Sovereign Debt Restructuring Mechanism (SDRM), as well as on voluntary inclusion of Collective Action Clauses in sovereign debt securities, including the possibility of debt restructuring without the unanimous consent of creditors. When the SDRM was not adopted, both the Bank of France, in the G-20 framework, and associations composed of private financial institutions with direct interaction in the emerging market economies, came forward with proposals for a Sovereign Debt Restructuring – Code of Conduct. Discussions on elaboration and possible voluntary adoption of this Code of Conduct will continue throughout 2004.

In 2003, the Executive Board lengthened the maturities of Supplementary Reserve Financing (SRF), allowed Contingency Credit Lines (CCL) to expire in November, defined operational criteria for exceptional access to Fund resources (above 100% of the yearly quota, or above 300% of the cumulative quota), and discussed policies to be adopted with respect to countries that have made prolonged use of Fund resources or, in other words, countries involved in Programs with the Fund during a period of seven or more years over the course of a ten year period. Created for the purpose of avoiding propagation of capital account crises to countries with solid macroeconomic policies, CCL operations never came to be utilized and were abolished in November 2003. The conviction at the Fund was that this type of credit was never utilized mainly as a result of attenuation of the risk of balance of payments crises as a consequence of the strengthening of the international financial system. However, Brazil took the position that the CCL should be preserved until such time as a new, more complete and efficient instrument could be developed.

Aside from the already mentioned reports, the IMF and World Bank work together to produce Reports on the Observance of Standards and Codes (ROSC) – evaluations of the degree to which different countries have adopted internationally recognized codes and standards in twelve areas: quality of data, monetary and financial policy transparency, fiscal transparency, banking supervision, capital market regulation, insurance supervision, payments systems, combating money laundering and the financing of terrorism, corporate governance, accounting, auditing, insolvency and creditor rights. Since these assessments first began in March 1999 up to December 31, 2003, 492 ROSC were produced for 101 countries (55% of the member countries), of which 364 (74% of the reports), referring to 89 countries (48% of the member countries), were published.

Another important activity, also carried out jointly with the World Bank, involves Financial Sector Assessment Programs (FSAP). FSAP are voluntary programs implemented at the request of a member country. Aside from calling for elaboration of ROSC, the FSAP uses stress tests to evaluate the degree of financial stability in periods of economic shocks and produces an extensive report with recommendations to authorities, together with two other synthetic reports – the Financial System Stability Assessment (FSSA) and the Financial Sector Assessment (FSA) – that are submitted to the Executive Boards of the IMF and World Bank, respectively.

With regard to publication of economic data, 55 countries, including Brazil, had subscribed to the Special Data Dissemination Standard (SDDS) by the end of 2003. The SDDS is designed to become a guide for disseminating economic and financial data to the public, improving the availability of timely and broad statistical information and, consequently, contributing to solid macroeconomic policies, while improving financial market operations.

At the end of 2003, total IMF capital came to SDR 219 billion, and total outstanding credits to be received by the Fund came to SDR 71.9 billion or just a bit above the level that had prevailed up to the end of the previous year, SDR 70.5 billion.

At the end of 2003, financial assistance programs were under way in 58 countries: 17 Stand-by Agreements, with a total value of SDR 54.4 billion[7]; 3 Extended Fund Facilities (EFF), in a total amount of SDR 4.4 billion and 38 Poverty Reduction Growth Facilities (PRGF), totaling SDR 4.8 billion.

The IMF's financial commitment to the Heavily Indebted Poor Countries Initiative (HIPC Initiative), which is designed to provide foreign debt relief to countries covered by this definition, increased from SDR 1.6 billion in the previous year to SDR 1.8 billion. Of this total, the end of 2003 had already disbursed SDR 1.1 billion.

Brazil's quota in the Fund is SDR 3,036 million, with participation of 1.43% of the organization's total capital. In December 2003, the Stand-by Agreement signed between Brazil and the IMF in September 2002 was extended for an additional 15 months (up to March 2005) and expanded by a total amount of SDR 4.6 billion – moving from SDR 22.8 billion to SDR 27.4 billion. This program has a preventive character since, in principle, there are no plans to make any further withdrawals. Of the total agreement, withdrawals came to SDR 17.2 billion, of which SDR 12.6 billion were withdrawn in the course of 2003. This amount was slightly more than the SDR 12.3 billion withdrawn in 2002 (when withdrawals against the 2001 Agreement were also made). It is worth mentioning that the tranches of SDR 5.6 billion and SDR 911 million made available in December 2003 and March 2004, respectively, were not withdrawn by Brazil. In 2003, the country's amortizations with the Fund added up to SDR 8.9 billion, while interest and other charges paid came to SDR 541 million.

On 12.31.2003, Brazil's debt balance with the IMF came to SDR 19 billion, the largest pending balance with that institution, followed by those of Turkey and Argentina. Reformulation of the Agreement included the lengthening of Brazil's debt amortization schedule with the Fund, with reduction of the amount to be amortized in 2004 from SDR 8.6 billion to SDR 4.6 billion, while increasing 2007 amortizations from SDR 1.8 billion to SDR5.9 billion.

The Annual Meeting of the IMF and World Bank Boards of Governors was held in Dubai, United Arab Emirates, on September 23 and 24, 2003. In the first half of the year, the meetings of the International Monetary and Financial Committee (IMFC) and the Development Committee were held in Washington, DC, on April 12 and 13.

7/ On 12.31.2003, rate SDR/US$ = 1.48597.

Bank for International Settlements (BIS)

The BIS is an international organization founded on January 20, 1939, with the task of encouraging international financial and monetary cooperation. It operates as the bank for central banks, taking on the role of correspondent in their financial transactions. At the same time, the BIS is a forum used by central banks and the international financial community for purposes of coordinating their activities, while it also serves as a center of financial and monetary research and as fiduciary agent in international operations performed by central banks.

In 2003, the BIS expanded its membership to 56 central banks. In March of that year, the Executive Board of the BIS decided to substitute the gold franc with Special Drawing Rights (SDR) as its unit of account – with composition and values identical to the system used by the IMF. Authorized capital corresponds to SDR 3 billion: 600 thousand nominal shares of SDR 5 thousand, with 529,125 shares issued. Since March 25, 1997, Brazil has held 3000 subscribed shares in the amount of SDR 15 million. By the end of the Fiscal year 2002/2003, BIS assets stood at SDR 149.6 billion and its own resources, capital and reserves totaled SDR 8.8 billion.

The BIS acts as a catalyst of cooperation among central banks, organizing regular meetings among the members of the G-10[8] and the major emerging economies.

In the course of 2003, the Meeting of Banco Central Governors dealt with the following topics, among others:

- deflation, recent experience: typologies, risks and implications for monetary policy;
- financial industry and the outlook for recovery;
- post-crises capital flows in Eastern Asia;
- banco central communication with the public, part of effective monetary policy;
- European monetary integration; challenges for Central Europe;
- difficulties in external financing and their implications;
- prices of real estate assets and their implications for monetary policy and financial stability;
- resistance to exchange appreciation and accumulation of reserves and their consequences for the financial system.

The institution hosts the secretariats of various committees and reports are issued to the G-10 on the work carried out by them, as follows:

8/ Group of industrial countries including: Germany, Belgium, Canada, the United States, France, the Netherlands, Britain, Italy, Japan, Sweden and Switzerland.

The Basel Committee on Banking Supervision does not have a supranational supervision mandate, but formulates prudential supervision standards and guidelines with the purpose of further reinforcing the financial solidity of banking institutions. Implementation of a new accord is forecast for the end of 2006 (also known as the Basel Accord II). This instrument will further refine prudential rules on bank capitalization and risk sensitivity indicators, while also dealing with minimum capital requirements. The new Accord will encourage banks to develop their own credit risk assessment models based on three fundamental pillars: minimum capital requirements; review of capital adequacy supervision; and, finally, transparency or market discipline based on public disclosure.

Aside from this, the Committee works to develop practical cooperation among national and international supervisors, with the objective of improving supervisory efficiency.

The Committee on Payment and Settlement Systems defines international standards for fostering the security of payment systems, strengthening market infrastructure and reducing systemic risk. It operates in a partnership with the International Organization of Securities Commissions (Iosco). In 2003, the Committee published a report on the retail payments policies of a variety of countries.

The Committee on the Global Financial System focuses on the vulnerability of the global financial market, viewed under the prism of both the industrialized countries and the emerging economies. Among the topics dealt with by the Committee, the following should be underscored: bond market liquidity; market behavior in times of crisis; information transparency; and improvements in BIS statistics. In 2003, the Committee also dealt with such subjects as analysis of incentive structures in the management of institutional assets and their implications for the financial market, and credit risk transfers.

The Market Committee (formerly known as the Committee on Gold and Foreign Currencies) monitors exchange market activities and identifies their implications for central bank policies and the operational implementation of such policies, in such areas as exchange rate volatility.

The BIS acts as the secretariat for the Financial Stability Forum (FSF), which was created by the G-7 in 1999 and given the task of debating questions involving the strengthening of international financial architecture and fostering cooperation among national authorities and international organizations and regulatory agencies. In November 2003, the FSF sponsored the 3rd Regional Latin American Meeting in Chile, for the purpose of discussing, among other points, public debt sustainability and management, crises prevention, the New Basel Accord, and initiatives in corporate governance. The Forum sponsored plenary sessions in March and

September in Berlin and Paris, respectively. Among the themes discussed recently, mention should be made of the following: development of the reinsurance market; the lack of transparency and potential risk in the reinsurance industry; transferring credit risk through credit derivatives; transferring operational risk among sectors, their integration and aggregation; market foundations and corporate governance; stock market volatility; accounting standards; credit risk ratings agencies; and the strengthening of supervision, regulation and information exchange agreements in offshore financial centers.

Performing its role as the bank of central banks, BIS offers a wide array of banking services specifically designed to aid in managing reserves. In 2003, 130 central banks had reserves under BIS management. The institution is one of the external managers of part of Brazil's foreign reserves, providing a flow of knowledge and asset portfolio management technologies.

Center of Latin American Monetary Studies (Cemla)

Created in 1952, Cemla has the following objectives:

a) foster a better understanding of monetary and banking affairs in Latin America and the Caribbean, together with pertinent aspects of fiscal and exchange policies;
b) aid in improving the preparedness of the personnel of Latin American and Caribbean central banks and other financial institutions;
c) coordinate investigations and systematize their results in the above mentioned fields;
d) transfer information to members, dealing with facts of international and regional interest in the framework of monetary and financial policies.

The Center is composed of 50 institutions, 30 of which are associate members – Central Banks of the region – with voice and vote in the Meeting of Governors. The 2003 budget was US$2.6 million, fully covered by annual contributions. Brazil has been a Cemla member since 1957 and makes annual contributions in the amount of US$283 thousand.

Cemla operates by itself or in partnerships with central banks and international institutions in promoting courses, seminars, lectures and international meetings targeted to central bank specialists; it publishes studies, reports and technical and academic papers on subjects of interest to the membership.

The Center is directed by the Meeting of Governors, which is composed of the presidents of the associated central banks and the Board of Governors, with seven members. Management is the responsibility of the Director General and Deputy Director General. Since it is the site of the Center's headquarters, Mexico has a permanent seat on the Board, while the other seats are occupied by associate members elected for two year terms. Aside from Mexico, the current Board of Governors is composed of representatives of Argentina, Brazil, Colombia, Guatemala, Barbados and Venezuela. Banco Central do Brasil has occupied the Presidency of the Board of Governors since May 2003, with a mandate of two years.

The Center issues several different periodical publications (also available at www.cemla.org), including the magazines *Monetária* and *Money Affairs*. It also grants the Rodrigo Gómez Award for academic papers on central bank questions, with a US$10 thousand prize for the winning author and publication of the paper.