VII

International Financial Organizations

In 2004, the world economy continued on the path toward recovery begun in the second half of 2003. The pace of growth differed from one country and economic bloc to another, as the United States, China and most of the developing countries managed to register more accentuated growth than expected. In contrast to this performance, Europe and Japan turned in a lesser degree of expansion than had been previously predicted, primarily as a result of the limited performance of their exports and internal demand.

The recovery process was driven by highly favorable conditions on world financial markets. In real terms, interest rates remained near zero in most countries; stock markets recovered across the world; long-term interest rates remained below equilibrium levels; and spreads dropped to historically low levels for both corporations and emerging markets, accompanied by a new wave of foreign loans to such markets. To some extent, these events reflect solid economic fundamentals, including well-based inflation expectations, strengthening of corporate equity positions and reductions in the external vulnerabilities of the developing countries.

Global current account balances worsened, as the American deficit set a new record of 5.5% of GDP in 2004. However, this deficit generated current account surpluses in Southeast Asia, Japan and, to a lesser extent, Europe. Accumulation of international reserves, composed mainly of United States dollars, continued expanding sharply in the oil producing countries and in Southeast Asia.

Oil prices remained high and intensely volatile due to such factors as strong demand and uncertainties surrounding the evolution of Opec production. Inflation and global inflationary pressures remained under relative control, with no significant signs of adverse effects caused by the spiral in international oil prices.

This was the basic backdrop to the agenda of International Financial Organizations, clearly demonstrating the need for correcting fiscal imbalances and current account distortions that could jeopardize world economic performance over the medium-term.

International Monetary Fund (IMF)

The IMF was created in 1945 and now has 184 member countries. It's primary functions are to foster international monetary cooperation; seek exchange rate stability; foster economic growth and high levels of employment; provide temporary financial assistance to countries involved in balance of payments adjustment processes; and facilitate balanced expansion in international trade. At the same time, the organization monitors and analyses the economies of the member countries on a yearly basis and also carries out a wide variety of studies, most important of which are World Economic Outlook and the Global Financial Stability Report, which are published on a half-year basis.

As an element of its multilateral macroeconomic analysis and supervision activities, the Fund estimated world economic expansion at 5.1% in 2004, somewhat higher than the 2003 figure of 3.9%. In comparison to 2003, the volume of world trade expanded 9.8%, as the prices of petroleum and other international commodities expressed in dollar terms expanded at respective rates of 30.7% and 17.9%. Consumer inflation reached 2% in the developed countries and 5.8% in the other nations of the world.

Aside from analyzing the international economy and finances, the IMF also performs consultations specified in Article IV of its Articles of Agreement, consisting of macroeconomic supervision of each member country, normally on an annual basis, while it also carries out Program Reviews on a quarterly basis, when a country participates in a Financial Assistance Program sponsored by the Fund.

Aside from the already stated reports, the IMF works together with the World Bank to produced the Reports on Observance of Codes and Standards (Roscs), which are evaluations regarding the degree to which countries have adopted internationally recognized codes and standards in twelve areas: data quality; monetary and financial policy transparency; fiscal transparency; banking supervision; capital market regulation; insurance supervision; payment systems; combating money laundering and the financing of terrorism; corporate governance; accounting; auditing; and, finally, insolvency and creditor rights.

Another important activity carried out together with the World Bank is the Financial Sector Assessment Program (FSAP), which is carried out at the request of a member country. Aside from elaboration of the Roscs, the FSAP uses stress tests to verify the degree of financial stability in the face of economic shocks and produces a report with recommendations to the authorities of that specific member country. These results are accompanied by two synthetic reports – the Financial System Stability Assessment (FSSA) and the Financial Sector Assessment (FSA), which are submitted to the Boards of the IMF and World Bank.

With regard to the publication of economic data, by the end of 2004, 58 countries, including Brazil, had subscribed to the Special Data Dissemination Standard (SDDS). The objective of the SDDS is to act as a guide for publication of economic and financial data, thus improving the availability of timely and wide-ranging statistics, contributing in this way to solid macroeconomic policies and financial market improvement.

The Fund's 2004 agenda calls for a continued effort to restructure the international financial system, through development of more effective mechanisms designed to prevent and deal with crises, including such tools as Liquidity Management, Balance Sheet Approach (BSA) and Debt Analysis Sustainability (DAS). Discussions also took place on the creation of a preventive line of credit that would substitute the now extinct Contingency Credit Line (CCL); on adoption of the Policy Monitoring Agreement (PMA), a program that does not involve disbursement of resources by the Fund; and on Trade Integration Mechanisms (TIM), a mechanism that provides countries with balance of payments problems related to trade integration questions with more direct access to IMF financing programs. This component went into operation in April of 2004.

In the month of July, the Biennial Surveillance Review was concluded. This process included discussion and implementation of various measures, including a deepening of studies on various existent exchange systems and strengthening of supervision in the globalized financial sector. These are studies that may well contribute to making the process of international monetary supervision carried out regularly by the IMF significantly more effective.

Another important review that was carried out involved the way in which the Fund acted in the program's financed between 1995 and 2000. During this review, the IMF discussed the objectives, results and analytical frameworks used in these programs, concluding as to the need for improving future programs.

At the same time, mention should be made of the discussions carried out on public investments and fiscal policy that resulted in an exchange of ideas regarding the ways in which public investments in infrastructure can be fostered in a responsible manner and the treatment to be given to PPP in fiscal accounts.

In the framework of the discussion on the initiatives taken to resolve financial crises, a proposal was presented regarding adoption of a rigid Code of Conduct, which later evolved into the formulation of flexible and voluntary principles. In further discussions carried out with the mediation of the G-20 – composed of representatives of the industrialized nations and emerging economies – and by private financial institutions, progress was achieved in defining the Principles of Stable Cash Flows and Fair Restructuring of Emerging Market Debts, to be established on a voluntary basis among security issuer countries and private sector participants.

Total IMF capital came to approximately US$327 billion at the end of 2004. Overall credits reached US$90 billion, including US$10 billion in loans granted on a concessional basis. Of the total member countries, 82 are debtors (with 59 involving concessional loans).

IMF participation in the initiative to provide external debt relief to the Highly Indebted Poor Countries (HIPC Initiative) remained at the same commitment level as in the previous year, SDR 1.8 billion, of which SDR 1.3 billion had been disbursed in cumulative terms up to the end of 2004.

Brazil's quota in the Fund corresponds to SDR 3,036 million, representing participation of 1.43% in the organization's total capital. In December 2003, the Stand-By Agreement between Brazil and the IMF formalized in September 2002 was extended for an additional fifteen months (up to March 2005), with the overall value of the agreement being increased by SDR 4.6 billion – moving from SDR 22.8 billion to SDR 27.4 billion. Withdrawals against the agreement came to SDR 17.2 billion, of which SDR 12.6 billion occurred in 2003. This amount was just slightly more than the SDR 12.3 billion withdrawn in 2002 (when withdrawals against the 2001 agreement were still being 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. This fact demonstrates that the program between Brazil and the Fund was essentially a preventive program. In 2004, Brazil's amortizations with the Fund came to SDR 2.9 billion, while interest and other charges paid reached SDR 814 million.

On December 31, 2004, the Brazilian debt balance with the IMF was SDR 19 billion, making it the largest pending debt balance with the institution, with Turkey and Argentina occupying the following positions. The reformulation of the Agreement also included lengthening of the amortization schedule of the Brazilian debt with the Fund, reducing the amount to be paid in 2004 and increasing amortizations scheduled for 2007 from SDR 1.8 billion to SDR 6 billion.

Bank for International Settlements (BIS)

The BIS is an international organization founded in 1930 and has the basic function of fostering international financial and monetary cooperation, acting as a forum in coordinating processes among central banks and the financial community; as a financial and monetary research center; and as a fiduciary agent in international operations carried out by central banks.

Headquartered in Basel, Switzerland, the organization coordinates committees and organizations charged with promoting financial stability. Among these, mention should be made of the Basel Banking Supervision Committee; the Committee on Payment and

Settlement Systems; the Committee on the Global Financial System; and the Market Committee. These committees were founded over the last 40 years by the central banks of the G-10[5] countries and they enjoy a high level of autonomy in structuring their agendas and activities. The BIS also acts as the Secretariat of the Financial Stability Forum (FSF), which was created in 1999 to debate questions involving the strengthening of the international financial architecture and to foster cooperation among national authorities and international organizations and regulatory entities.

At the end of the fiscal year on March 31, 2004, BIS assets came to a record value of SDR 167.9 billion, reflecting 12.2% growth compared to the previous year. Foreign currency deposits, which account for the major share of BIS liabilities, rose to SDR 133.2 billion, after having closed the previous fiscal year at SDR 122.5 billion. It is important to note that the currency composition of these deposits changed significantly. The share in American dollars diminished from 67.1% in the previous year to 62.4% on March 31, 2004.

Brazil has been a stockholder in BIS since March 26, 1997, with 3000 subscribed shares worth SDR 15 million. In the 2004 fiscal year, BIS decided to include six new members among its stockholders. These members were the central banks of Algeria, Chile, the Philippines, Indonesia, Israel and New Zealand.

The tendencies that have driven the most recent developments in global markets were the subjects that received the greatest attention during the regular 2004 BIS meetings, in which discussions on themes related to the structural aspects of financial and monetary stability prevailed.

Among the activities carried out by the organization, the most important involve studies carried out by the Committee on the Global Financial System on foreign direct investment in the financial system of emerging market economies; the activities of the Basel Banking Supervision Committee for purposes of implementation of the framework of the Basel Accord II; and discussions within the Committee on Payments and Settlement Systems – which operates in a partnership with the International Organization of Securities Commissions (Iosco), for the purpose of fostering security in payment systems by strengthening market infrastructure and reducing systemic risk.

In its turn, the Basel Banking Supervision Committee continued its efforts aimed at strengthening prudential supervision in banking institutions; adopting more transparent practices in financial records; and encouraging banking systems to move forward in the area of risk evaluation. Furthermore, the Basel Committee also turned its attention to implementation of a revised framework that indicates optimal capital levels for banking institutions.

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

Finally, with regard to the role of the bank of central banks, it offers a wide variety of banking services, designed specifically to aid in the area of reserve management. In 2004, more than 100 central banks, including the Central Bank of Brazil, had part of their reserves administered by the BIS, which also transfers knowledge and technology to these institutions on the subject of asset portfolio administration.

Latin American Center of Monetary Studies (Cemla)

Cemla was founded in 1952 and is a civil association headquartered in Mexico City. Among its various responsibilities, the most important concern questions related to monetary and financial stability and the operation of the international financial system.

More specifically, Cemla has the objective of fostering a better understanding of monetary and banking questions in Latin America and the Caribbean, while also dealing with important aspects of the exchange and fiscal policies of the member countries; assistance in training central bank staffs and those of other Latin American and Caribbean financial entities; research and systematization of results in the fields mentioned above; and dissemination of information to members on facts of international and regional interest in the framework of monetary and financial policies.

Cemla is currently composed of fifty institutions, thirty of which are associated central banks. The others are distributed among collaborating and assistant institutions. Cemla has four levels of management authority: the Assembly, Board of Governors, the Director General and the Deputy Director General.

The Assembly is the highest level of authority in the institution and is composed of the governors of the central banks of the associated members, all of whom have active voice and vote in the deliberations of the Center. The major share of the organization's budget – approximately US$2.2 million in the 2004 fiscal year – is composed of contributions on the part of associated members and collaborating members. Brazil's annual contribution has been unaltered in recent years, totaling US$283 thousand.

The Board of Governors is composed of the governors of seven associated central banks, with Mexico as a permanent participant as the host country, and two extra regional banks as collaborating members. The Board is subordinated to the Assembly and its members are elected for two-year terms as the representatives of the group of associates who elected them and in proportion to the voting power of that group. In the 2003–2005 period, Brazil has occupied the presidency of the Board of Governors.

Cemla organized 57 events in 2004, including courses, seminars and workshops on themes of interest to central banks. More than 1,700 people from all parts of Latin America and the

Caribbean participated in these events. Among the themes included in the Cemla activities program, the highlights were management of private capital flows and debt; strategic communication among central banks; and compilation of statistics by central banks.

Another area of interest has been in the dissemination of knowledge. In this regard, the highpoints are a series of periodical publications (the *Boletín*, *Monetária* and *Money Affairs* magazines) and other nonperiodicals (essays, articles, research), which analyze economic, financial and banking questions. Furthermore, in order to provide incentives and recognition, the Center awards the annual Rodrigo Gómez Award, to the best paper on themes of importance to central banks.