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WORLD BANK GROUP
INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
INTERNATIONAL FINANCE CORPORATION
INTERNATIONAL DEVELOPMENT ASSOCIATION
INTERNATIONAL CENTRE FOR SETTLEMENT OF INVESTMENT DISPUTES
MULTILATERAL INVESTMENT GUARANTEE AGENCY

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Statement by the Hon. **TRICHET**,
Alternate Governor of the Fund for **FRANCE**,
at the Joint Annual Discussion

STATEMENT BY MR. JEAN-CLAUDE TRICHET
GOVERNOR OF THE BANK OF FRANCE

Mr. Chairman,
Mr. Managing Director of the IMF,
Mr. President of the World Bank,
Governors,
Ladies and Gentlemen,

This meeting comes at a time when the economic and financial context is worrisome. Since our last meeting in Hong Kong one year ago, financial instability has spread throughout a large part of Asia and beyond, striking many regions around the world in one way or another.

The crisis took on a new dimension this summer. The difficulties facing a number of emerging countries and the exposure of financial institutions in the industrial countries to market risk or to the risks of hedge funds, for example, have led to a heightened sense of financial insecurity.

This situation cannot be blamed solely on economic policy errors, although there is no denying that errors have been made in some cases. Nor can it be blamed on the actions of the international financial institutions. Rather, we need to take a look at the international financial and monetary system as a whole, with a clear head and setting aside dogma. We must face the reality of a world economy that is more diverse, more open, and far more complex than it was fifty years ago when the Bretton Woods institutions were created. This crisis does not call into question the usefulness of these institutions—quite the contrary. It is the dialogue between the industrial and emerging countries that is inadequate. It is market infrastructures and their regulation that are visibly dysfunctional. The international community must assume more responsibility for organizing the system. In this, the Bretton Woods institutions are the tool of choice, and therefore their role should be expanded.

An event of far-reaching scope for the international monetary system will take place at year-end, namely the introduction of the single European currency, the euro. Meeting the prerequisites for the euro's complete success will make the euro zone a pole of stability and prosperity. As such, the euro should contribute to a more balanced international environment. Indeed, given the globalized nature of the economic and financial world, Europe ought not to give the impression that it is solely concerned about its own internal integration process. It is paying close attention to developments in the world economy and the international financial markets. This is even more valid in the current situation.

We must take care not to let this troubling economic and financial situation distract us from providing assistance to the poorest countries. It is our responsibility to continue to support the developing countries steadfastly and purposefully. Above all, this support should translate into backing for the International Monetary Fund by financing the Enhanced Structural Adjustment Facility, and for the World Bank and regional development banks by adequately replenishing the African Development Fund and the International Development Association. Steadfastness in the continued implementation of the debt initiative for the heavily indebted poor countries is also crucial. Last, France welcomes the initial steps taken to enhance our capacity to respond to the problems of the post-conflict countries, which should enable us to take better account of their individual situations on a case-by-case basis.

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France is convinced that Europe can contribute to the improvement of the monetary and financial system. For this reason, we have recently put forward twelve proposals, which we felt we should discuss first with our European partners. We found that our views were widely shared and that the proposals gave rise to constructive debate at the international level, as evidenced by the meetings of the past few days, especially those of the Interim Committee. I will not go over here all the ideas that France has put forward, but I do wish to underscore certain points.

Strengthen institutional management. The legitimacy of the IMF—cornerstone of the system—is conferred solely by the support of its shareholders, the member countries, which alone are accountable for the general policy of the institution in the face of public opinion. This is why the IMF's resources and political legitimacy must be strengthened. Therefore, it seems that strengthening the "government" of the international financial institutions is essential. The Governors must play a more active and consistent role in a body that represents the diversity of countries involved in international financial trade. This is why France defends the principle of changing the Interim Committee into a Council, as the Fund's Articles of Agreement in fact provide for.

Of course, in France's view, it would be wholly beneficial if the Development Committee were to move in the same direction. The World Bank President must submit proposals to us so that the ministers can take decisions on all development issues. In fact, I believe that we can improve the coordination between the Interim Committee and the Development Committee to reflect the complementarity between the Fund and the Bank.

Ensure the soundness and transparency of the financial markets. Overhauling the international monetary and financial system also requires the introduction of stronger regulations to ensure that the markets function better and to promote growth that is more socially equitable. I am pleased with the work in progress on transparency of public authorities and international institutions. But I wish to emphasize that private sector transparency is also crucially important for smooth functioning of the markets. This is particularly true of the financial sector, which must learn to better evaluate the risks it is taking by making more prudent use of the existing data, and which must also learn to apply the principle of transparency to its own activities, particularly vis-à-vis the supervisory and monetary authorities. The G-7, G-10, and the Interim Committee in the last few days have adopted new guidelines in this area. This is a very important step, and we must now proceed to quickly assess the modalities for implementing these guidelines in the forums concerned.

To ensure financial stability, it is also important to *strengthen the financial infrastructure of the emerging countries.* This is an area in which it would be worthwhile to strengthen cooperation between the two Bretton Woods institutions. The proposed Liaison Committee between the Bank and the Fund on the financial sector seems to me to be one approach to achieving the requisite operational cooperation between the two institutions. This cooperation must be ongoing.

Implement the orderly and gradual liberalization of capital flows. The process of liberalizing capital should be orderly and gradual and should follow—not precede—the establishment of sound financial infrastructures.

Involve the private sector in crisis resolution. Last, our crisis-management tools should be improved. Crisis management should involve the private sector, which should participate financially, in a spirit of partnership. Therefore, it would be desirable to ensure greater solidarity of bond creditors at the outset, through provisions governing international securities or, better still, appropriate legislation in the principal international financial centers. The concept of creditor committees, involving the IMF, the national authorities and, if appropriate, the Paris Club, is an interesting starting point for fostering cooperation in crisis resolution.

Clearly, these proposals by no means answer all the questions facing us. For example, we must also consider the international monetary system in order to determine how the coexistence of large, integrated monetary groupings and smaller, more open economies with diversified trading structures can best be organized, in a context of stability.

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In this new international environment in the making, European monetary union must be a stable pole. Last year I assured you that I was certain that monetary union would move forward in accordance with the criteria and timetable established in the Maastricht Treaty. Looking back, it is difficult to understand why there was still so much skepticism one year ago. Today, the unswerving determination of European authorities to implement the single currency and the progress made toward convergence have prepared us for this historic moment.

However, five prerequisites must continue to be met in order for the euro to be a complete success and for that success to contribute toward greater international equilibrium.

What are these five prerequisites that must be met to assure the success of the euro?

– First, a serious and credible monetary policy underpinned by an independent European System of Central Banks. If the euro is to be an effective monetary instrument, it must inspire confidence in the 290 million Europeans in the euro zone and in non-Europeans as well. It must be at least as good a store of value as the franc and the other leading European currencies. In this way, the European economy will be given the best financial environment possible for sound growth that generates lasting employment.

– Second, adherence to the provisions of the Treaty and the fiscal guidelines of the Stability and Growth Pact. Closer coordination of fiscal policies and vigilant peer surveillance in the informal Council of Eleven—the Euro-11—and the ECOFIN Council, comprising finance ministers of all 15 member states, will be essential if there is to be a balanced policy mix in the zone as a whole. In addition, meeting the medium-term objective of fiscal quasi-equilibrium or fiscal surplus holds the key to achieving a collective approach to "lean-cow" economic cycles and enabling individual countries to withstand any asymmetric shocks.

– Third, the implementation of structural reforms throughout Europe. Some outside observers have recently criticized the Europeans for moving ahead with the euro when, according to these observers, the more important priority would have been to complete the structural reforms necessary to achieve more vigorous job creation. Far from being incompatible with structural reform, however, the euro actually complements such reform, because, in the first instance, the euro *per se* represents a major structural reform for all goods, services, and capital markets. It will also encourage greater coordination among the structural policies of member states (education, training, etc.): the Luxembourg European Council explicitly referred to structural policies as one of the areas requiring enhanced coordination of the economic policies of the 11 and of the 15 European states.

– Fourth, the emphasis which Europe's economic decision makers will be placing upon competitiveness in their analysis of national performance. Each economy will have to be especially vigilant in monitoring such indicators of competitiveness as changes in the unit costs of production, the regulatory and fiscal environment, and, more generally, in ensuring a climate conducive to dynamic business performance.

– Last but not least, the ownership of the euro by all economic transactors. For this reason, our message to economic transactors and businesses in particular can be summed up quite simply as follows: "The introduction of the euro is not a tactical move but a strategic requirement." It is not simply a question of replacing one currency with another and rewriting some software; all corporate behaviors and functions—in industry, commerce, finance, etc.—must be reexamined to determine what strategic changes they may need to undergo.

Under these conditions, the economy of the euro zone will be able to fully contribute to greater monetary and financial stability and, thereby, to world growth. We are seeing encouraging developments as regards domestic demand growth in continental Europe. A flexible and well-organized transition to the euro over the next three months is one means of building the confidence necessary for the expansion of domestic demand and specifically of investment, and hence for growth and efforts to combat unemployment.

This smooth transition to the euro also requires the convergence of interest rates in the zone with the prevailing rates in the economies with the strongest and most creditable domestic currencies, particularly the franc. This will lead to substantially lower short-term rates in a number of European countries. These interest-rate reductions have already begun and the economies in question together represent just over one third of the gross domestic product of the euro zone.

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The present state of international financial instability should not make us lose sight of development and aid issues critical to the poorest countries.

Some poor countries are experiencing high growth despite the sharp downturn in the international environment. This is particularly the case with sub-Saharan Africa, whose growth rates are currently the highest in the world. This is the result of their efforts and justifies our support, but poverty remains endemic and the recovery of real economic activity is still all too uncertain. The developed countries must steadfastly support the development of poor countries. They have a human, social, and political responsibility toward the poor countries, to enable as many of them as possible to attain an acceptable standard of living. They also have an economic interest in doing so, because world growth cannot be sustained unless the developing countries experience real progress.

To that end, the developed countries must support a number of different measures.

– It is essential to concentrate official assistance on key development priorities and provide development banks with resources for their work.

Official assistance should meet basic needs in developing countries: consolidating the role of government in creating the conditions for private sector development; facilitating the population’s access to credit; helping diversify economies; and developing infrastructure and basic services, especially in the areas of health and education.

The World Bank and regional development banks play a central role in poor countries. Adequate replenishment of the concessional resources of the African Development Fund and IDA is therefore key to providing them with the means for continuing their work.

– The borders of the industrial countries must be opened to the products exported by developing countries, and regional integration among developing countries must be facilitated.

These two prerequisites for stability and prosperity are insufficiently recognized as essential development assistance resources. France and the European Union do maintain this approach with the African, Caribbean, and Pacific countries under the Lomé Convention. We urge all the developed countries to take similar measures with regard to poor countries.

– Efforts must be continued to relieve the debt burden, which in and of itself can sometimes jeopardize development prospects.

The initiative to relieve the debt of the heavily indebted poor countries (HIPC) has now been launched, thanks to close cooperation between the IMF, World Bank, and Paris Club. Now, we must continue our efforts to ensure that the initiative is fully implemented. I hope that all the poor countries, whose debt is deemed to be unsustainable and who have implemented the necessary adjustment measures, may be able to benefit from it.

The international financial institutions must increase their rate of production of debt sustainability analyses of the poorest countries and exercise, as the Paris Club has done, all the necessary flexibility in implementing the initiative, considering the specific characteristics of each country on a case-by-case basis.

– Remove the obstacles to assistance for post-conflict countries.

France is pleased that the World Bank and IMF have submitted to us an initial review of the issue. To those who have been excluded from the international community by war, we must now propose innovative solutions to enable them to reenter that community as they make their own efforts to do so.

We must continue the task of determining the conditions for special treatment to be adapted to each particular case, but which can be guided by some general principles. The international effort should be very closely coordinated among all the international financial institutions, particularly in order to ensure that net transfers are positive. It seems to me that two principles are fundamental: those who have just reached an arrangement with the Fund should not be penalized, and those who deliberately set themselves apart from the international community should not be rewarded later on.

This message of support to all developing countries, and calling for sufficient official assistance for the poorest countries, is a message that comes from France, but it also comes from Europe. In 1997, the members of the European Union alone provided 57 percent of the world's ODA resources. This shows the importance of the contribution made by Europe, which, in France's opinion, should be fully taken into account by the Bretton Woods institutions. France is in favor of strong, legitimate, and effective international institutions; moreover, France is concerned that the rich nations should continue to show solidarity with those countries facing difficulties. It is in this way that, together, we will overcome all the current problems.