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Statement by the Hon. **FATHALLAH OUALALOU**,
Governor of the Bank for **MOROCCO**,
on behalf of the Arab Governors,
at the Joint Annual Discussion

Speech
By
His Excellency Fathallah Oualalou,
Moroccan Minister of Economy and Finance
to Be Delivered on Behalf of Arab Governors
At the 1998 Annual Meetings of
the World Bank and the International Monetary Fund

It is a pleasure and an honor to deliver this speech in the name of Arab Governors to the World Bank and International Monetary Fund (IMF) meetings. Allow me, at the outset, to extend my heartfelt congratulations to you for being selected to chair the Board of Governors this year.

Mr. Chairman,

Today, the global economy is going through a difficult phase, fraught with risks and challenges. The Economic conditions in the Asian crisis countries and Japan have worsened; economic growth in those countries has deteriorated more than was expected. The crisis has spilled over into other countries, including Russia where economic problems have clearly been compounded, and Latin American countries where financial market fluctuations have so intensified that some of them were forced to take protective measures to limit the adverse effects on their economies. The speed of such developments and the potential worsening of the crisis on a global level have stressed the urgent need for concerted efforts by international financial institutions, member states and the private sector in order to prevent further deterioration of the global economy and avert a spillover of the crisis into other regions of the world.

Mr. Chairman,

At this juncture, the world community faces several challenges. First, the need for concerted efforts to boost global demand and increase the growth rate of the global economy. This specifically means that high growth rates of the European and U.S. economies should be maintained, and Japan's economy should be revived expeditiously. The substantial decline in Japan's GNP growth in 1998 suggested the need to take more effective steps to stimulate the economy, proceed with banking system reforms, and solve the problems which prevent restoration of investor and consumer confidence in the possibility of revising the economy in the near future. The world community should also take the steps necessary to prevent a spillover of the crisis into other countries.

The second challenge lies in the need for developing and emerging-market countries, especially Asian countries going through the current crisis, to persist in implementing structural reforms of their economies, and adopt prudent financial policies in order to successfully put in place the sound fundamentals that will enable them to restore their capacity for growth and prosperity. It is appropriate in this respect to commend the

several reforms undertaken by the Asian crisis countries amidst extremely difficult conditions. Those reforms have yielded positive indicators which herald the beginning of improvement of their economic conditions. The IMF should also be commended for its flexibility in introducing changes in the reform programs of the crisis countries that would allow the expansion of social safety nets, and provision of the resources necessary to alleviate the burden of economic reforms on low-income groups.

The third challenge lies in identifying the causes of the recent crisis to determine the steps necessary to resolve them and prevent a recurrence of the crisis in the future. This also involves the need to identify weaknesses in the structure of the global financial system that helped compound the crisis and spread its effects across countries. In this respect, it should be particularly noted that the crisis had shown the danger involved in the growing dependence on short-term capital flows to finance countries' external needs. The growing size of such flows intensifies the impact of their sudden decline on the stability of the banking sector in particular and the overall economy in general. Therefore, it is imperative to watch private sector as well as state indebtedness and take measures to reduce dependence on short-term capital. The crisis has also shown the utmost importance of supervision of the banking and financial sector to ensure its soundness and stability in the face of the problems created by the sudden decline in banking system cash liquidity. The unexpected decline in capital flows to the Asian crisis countries, and the accompanying sharp drop in exchange rates and sharp rise in interest rates, revealed the weakness and fragility of many banking systems there and the lack of adequate supervision of such systems. This had accelerated the deterioration of their financial conditions and the spillover of the adverse effects of the crisis into various sectors of the economy. This calls upon us to support intensified efforts by the IMF to enhance the performance of the financial and banking sector in developing countries. This will enable those countries to take better advantage of the current globalization of the world economy and limit its risks.

Mr. Chairman,

These lessons drawn from the recent crisis should prompt us to stress the importance of the deliberations by the Fund's Board on liberalizing capital accounts of member states and the conclusion reached during those deliberations that developing countries should be cautious when they liberalize the movement of capital flows and that the soundness of the financial sector and rigorous supervision thereof should be ensured before capital accounts are liberalized. The deliberations also emphasized the advisability of giving priority to the promotion of direct investments and long-term capital flows before the door is opened for the movement of short-term capital.

Mr. Chairman,

While drawing lessons from the recent crisis, we have also to welcome the efforts of the IMF in several other important areas with a view to strengthening the international financial system. We support the Fund's steps to enhance transparency of economic

statements, both those made available by official agencies to member states and those pertaining to the private sector, in order to help investors in financial markets assess the risk and alleviate the herd instinct that characterizes capital movements, especially when a crisis develops. We also welcome the Fund's growing interest in developing and disseminating internationally acceptable economic rules and standards in collaboration with other international financial institutions, while stressing the need to take into account differences in the conditions of member states and their effect on their ability to adopt such rules and standards. In this respect, I would like to point out the importance of strengthening the Fund's capacity to act as advisor in this area, by providing necessary technical assistance to help member states disseminate and apply the standards that fall within its field of specialization.

We also welcome the attempt to find appropriate ways to involve the private sector in reducing the possibility of future financial crises and in sharing the burden of resolving them when they occur. In this respect, we would like to stress in particular the importance of creating a mechanism to reschedule the external debt of the private sector in an orderly manner in intractable cases that cannot be solved by market forces. We also stress the need for authorities in capital-exporting countries to strengthen supervision of international operations of their financial institutions and to urge those institutions to publish adequate financial statements pertaining to such operations.

Mr. Chairman,

Amidst growing disturbances in the global economy and the increasing role of the IMF in dealing with and limiting the adverse effects of recurrent crises, we cannot but stress the need to provide the Fund with necessary resources to carry out its mission. Therefore, we caution against the substantial reduction in the Fund's liquidity last year and call for acceleration of measures to adopt the agreed increase in members' quotas.

Mr. Chairman,

While we should focus in this Annual Meeting on the current problems threatening the stability of the global financial system, we should not also fail to note the urgent need to strengthen the support of the world initiative to reduce the debt of low-income countries. On this occasion, we express our support of this noble initiative in view of its importance in improving the conditions of those countries, and stress the need to provide the remaining funds required, either through bilateral contributions or through the sale and investment of a limited portion of the IMF's gold reserve.

In the course of dealing with debt problems, we would like to stress the need to find appropriate ways to resolve the debt problems of middle-income countries as well, since the debt burden is hindering development efforts in many of those countries.

Mr. Chairman,

Allow me now to move on to welcome the historic step anticipated early next year, namely the establishment of the European monetary Union. While we wholeheartedly welcome this union in view of its expected benefits to the peoples of member states, we think that it is necessary to strengthen the role of the Fund in monitoring and supervising the economic and financial policies of the European community in view of the projected effects of the union on the world economy, the economies of neighboring countries and those of the Mediterranean countries in particular. On this occasion, we would like to urge member states of the European community to reduce customs and tax restrictions on products of developing countries in order to minimize the potential adverse effects of the European Monetary Union on those countries.

Mr. Chairman,

I would like now to move on to issues related to the World Bank Group.

The most important feature of World Bank Group operations in the past fiscal year was a substantial increase in loans and credits, far in excess of planned operations. Undoubtedly, the key factor that led to this level of activity was the role played by the World Bank Group in response to the financial crisis, particularly in East Asia, a role that should be supported in view of the wide-ranging effects of this crisis on the economies of many other countries.

We also welcome the continued focus of Bank operations on reducing poverty, developing human capacities, including health and education sectors, and protecting groups most vulnerable to the adverse effects of adjustment measures. We also look forward to increased attention to the conditions of low-income countries and those suffering the effects of armed conflicts. We would like to mention that there are broader areas for World Bank Group activities in the Arab countries, especially in light of the profound changes in economic policies undertaken by our countries in recent years, which have clearly contributed to the creation of an investment-friendly climate.

Mr. Chairman,

A look at the policies of the World bank Group clearly indicates that the difficult circumstances through which the global economy is going will require more efforts to improve the ability of this Group to deal with fluctuations and complex situations resulting in particular from globalization and the adverse social and economic effects of financial crises.

We welcome the efforts exerted by the World Bank Group in the past fiscal year in this direction in the context of the Strategic Compact, and the priorities it has adopted to improve the efficiency of performance and deal with the challenges posed by globalization and financial crises, and the emphasis on development of human capacities and broadening of cooperation with other institutions and donor countries. We also support

the positive directions of World Bank Group practices designed to give borrowing countries the initiative in leading the development process and assist them in selecting and applying appropriate policies to support their development efforts.

We would also like to stress the need for the World Bank Group to focus on its main goal of reducing poverty and contributing effectively to the development process in a large number of low-income countries whose conditions have worsened in light of current global developments. This will require that the World bank Group devote its limited resources to the main objectives consistent with its mandate and character, and to shoulder a limited portion of the burden of dealing with international financial crises in a way consistent with its financial conditions.

As is well-known, the issue of fair sharing of burdens emerged also in the recent measures taken to deal with a decrease in the net income of the IBRD, which resulted in an increase in borrowing costs. We support the efforts made by Bank management and Executive Directors to analyze and discuss the projected decrease in net income and its potential effects on Bank activities. However, we believe that it is not fair that borrowing countries should shoulder the larger part of the burden of solving this problem, particularly since many loans recently extended by the Bank Group were designed to stabilize world financial markets and also will benefit major industrial countries.

Therefore, we support the Bank management's initiative in calling for the establishment of a special fund to be financed by the donor countries to contribute to operations to be financed also from net income. In this respect, we also look forward to greater efforts by the major donor countries to replenish the resources of the International Development Association (IDA) and provide additional resources to finance the Highly Indebted Poor Countries Debt Initiative (HIPC). This would help alleviate the Bank's financial burdens and ensure expanded utilization by low-income countries of Bank Group resources.

Mr. Chairman,

Allow me now to move on to a brief review of current developments in the Arab countries. In this respect, it should be noted first that the continued decline in world oil prices has adversely affected economic growth rates in our region, particularly in the oil-exporting countries. This has resulted in a reduction in public spending and the adoption of measures to increase non-oil revenues of those countries. The oil-producing countries have intensified their efforts to diversify their economies by improving the investment climate for the private sector and enhancing the quality of education and training of the local manpower.

In other Arab countries, the implementation of ambitious economic reform programs continued. This resulted in higher growth rates and lower inflation in a number of these countries. Marked progress has also been achieved in transforming their economies to market economies by opening infrastructure to private sector participation

and privatizing public enterprises. This progress has been reflected in a marked improvement in the economic climate in Arab countries, increasing the volume of private sector investment in various economic activities. However, it should be noted here that Arab countries have been adversely affected by a decrease in world capital flows, which in turn has adversely affected their development plans. Therefore, we appeal to the IMF and the World Bank to continue and intensify their efforts to provide financial support and technical assistance to the Arab countries and their specialized agencies to enable them to deal with the challenges of globalization of the world economy and maximize the benefits from the new international conditions. It should be mentioned in this respect that sanctions imposed or threatened against a number of Arab countries, which we have drawn attention to in the past, are still in place. This adversely affects the economic conditions of these countries. We can only reiterate our just request to reconsider those measures objectively in order to alleviate the suffering of the affected peoples. We raise this issue because of the adverse effects of those measures at the financial and economic level and on free trade and the free transfer of capital. Hence, we call on the IMF and the World Bank to play a role in this respect.

We would also like to note the distinct efforts made to develop the Palestinian economy and build economic and financial institutions in the Palestinian territories. This has taken place with effective support from the World Bank, the IMF and donor countries. We would like to commend these valuable international efforts which are designed to help the Palestine National Authority overcome the difficult economic and living conditions in the Palestinian territories. But we are sorry to note that such efforts still face mounting obstacles as a result of the Israeli practices related to continued blockades which have hindered the Palestinian people's self-development efforts, wasted Arab and international financial contributions, and hampered the Mideast peace process. Therefore, we urge the World Bank Group, the IMF, all international institutions and member states to demand that the Israeli government give up such practices, and stop closing the borders and placing obstacles in the way of Palestinian, Arab and international efforts to develop the Palestinian economy.