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INTERNATIONAL FINANCE CORPORATION
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Statement by the Hon. ROD KEMP ,
Governor of the Bank for AUSTRALIA ,
at the Joint Annual Discussion

STATEMENT BY THE GOVERNOR OF THE BANK AND THE
FUND
FOR AUSTRALIA

Senator the Honourable Rod Kemp

I join with other Governors in welcoming, most warmly, Palau as a member of the Fund and the Bank and as a member of Australia's constituencies.

The Australian Treasurer, Peter Costello, is not able to be here today, due to our federal elections. He has asked me to record his support for the Managing Director and the President as they lead the Fund and the Bank in these difficult times. He also wishes to pay tribute to Anwar Ibrahim for the outstanding contribution he has made in chairing the Development Committee.

We are all aware of the seriousness of the current financial crisis and the weakened outlook for the global economy. However, we should avoid excessive gloom. There is continuing solid growth in two pillars of the world economy - North America and continental Europe. Global growth is forecast to be positive, albeit slower than was envisaged a year ago. China's policies are contributing significantly to stabilisation in Asia. And there are signs of emerging recovery in countries such as Korea and Thailand that are applying themselves vigorously to implementing Fund and Bank programs.

The Australian economy also is continuing to grow solidly and represents another area of relative strength in the world economy. This is despite the closeness of our trade links with Asia and the openness of our capital markets. In large measure, the resilience of the Australian economy in the face of the crisis reflects sound macro-economic policies, a return to budget surplus, the benefits of structural reforms, strong financial institutions and a flexible exchange rate.

Last weekend the Australian Government was re-elected on a platform based on continuing sound economic management and continuing economic reform. Comprehensive reform of the tax system - including the introduction of a new value-added tax, major reductions in income tax and the abolition of a wide range of inefficient taxes - was the centrepiece of our election commitments. It will follow action already taken by the Government to introduce much greater transparency in fiscal and monetary policy, to further improve the laws governing corporations and to upgrade prudential regulation of the financial sector by bringing all institutions under a single regulatory regime. Australia is at the forefront of world practice in these fields and that has served us well in the current global crisis.

Introducing such changes is never easy. But Australia's experience should help give others confidence that difficult but necessary changes can be introduced and accepted by our electorates if the necessary political effort is made.

There is a great deal of consensus about the action that needs to be taken in dealing with current global problems. Markets need to put aside any tendencies towards knee jerk reactions and look carefully at the circumstances of individual borrowers, so that credit can continue to flow to sound enterprises. Credit is the lifeblood of every economy. Countries in crisis need to resolve quickly any doubts affecting the creditworthiness of financial institutions so as to restore the health of their banking systems. Continuing efforts are needed to address deep-seated structural and institutional problems. And industrial countries have a key role in sustaining global demand and accepting the inevitable deterioration in their balance of payments that is a necessary part of restoring growth elsewhere.

Each of us must play our part in resolving the crisis. Japan has a crucial role to play. It is vital that the problems in the financial sector be resolved quickly and a healthy banking system re-established. The actions that the Japanese Government has already announced affecting the financial sector need to be pursued as a matter of urgency, while the announced fiscal stimulus should be brought into effect without delay. In the past, the effectiveness of fiscal packages has been weakened by uncertainties about their precise contents. Improvements in fiscal transparency of the type we have already introduced in Australia could yield even greater dividends in Japan.

It is also very important that we work to strengthen the international trading system and to keep markets open. We must maintain the momentum of trade liberalisation and work together to pursue these goals, including in the World Trade Organisation and APEC.. We welcome President Clinton's announcement yesterday that he will be seeking to take this up this issue at next month's APEC Economic Leaders meeting. We look to all APEC members to accept this challenge.

Australia wishes to add its voice in supporting speedy implementation of the general quota increase and adherence to the New Arrangements to Borrow. We welcome also efforts by the Bank and the Fund to develop new instruments to provide liquidity support for crisis economies and for economies with sound fundamentals which may also be affected.

From the beginning of the current financial crisis last year, Australia has played a very active role in international efforts to deal with it. We participated in the support groups for Thailand, Korea and Indonesia. We are promoting the development of regional surveillance in the Manila Framework Group. In APEC, we are sponsoring and supporting a range of initiatives to strengthen regional institutions and markets. And we have encouraged the Fund and the Bank in their efforts to assist regional economies and participated in international discussions such as those of the so-called Willard Group.

There is also a good deal of agreement on the areas in which work is needed in strengthening the architecture of the international financial system. This has been reflected in our discussions this week, including at the meeting of Finance Ministers

and Central Bank Governors in the so-called Willard Group. The reports of the three working parties provide a valuable road map for navigating the complex issues involved. Their conclusions should now be taken up in appropriate national and international agencies. The IMF and World Bank should also proceed with urgency in implementing the specific conclusions reached in the Interim and Development Committees over the last few days.

In particular, Australia gives high priority to the need to promote greater transparency in both the public and private sectors to provide a better information base for economic decision-making, including in the financial sector. Inadequate or unreliable information is a potent source of market uncertainty. Redressing existing deficiencies and making further improvements can do a lot to reduce potential sources of instability.

In this context, Australia welcomes the progress that has been made in the development and implementation of data dissemination standards. As set out in the relevant working party reports, more needs to be done to improve them further and to encourage adherence to them. Greater impetus also needs to be given to the development of improved international accounting standards and prudential standards.

Private sector participants in foreign currency markets also need to provide greater transparency in their activities. At present, they are subject to much less reporting requirements than most other financial markets. In view of their importance for global stability, this imbalance needs to be redressed.

We also need to press ahead with efforts to strengthen financial systems, both nationally and internationally, to help avoid the development of crises, as well as efforts to improve the handling of crises when they occur.

Important improvements have been made to Fund/Bank collaboration and at some point it may be desirable to re-visit the division of responsibilities. But for now the Fund and the Bank should work harder toward a pragmatic and businesslike delineation of their responsibilities, recognising that the focus of reform in crisis economies is now clearly on structural issues.

Finally, Australia supports efforts being made to provide assistance to those who are most adversely affected by the crisis through poverty alleviation and social support programs. It is also important that we maintain our efforts to relieve the burden of unsustainable debt in the poorest countries through the HIPC/ESAF initiative.