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Statement by the Hon. **ERNST WELTEKE**,
Governor of the Fund for **GERMANY**,
at the Joint Annual Discussion

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Governor of the Fund for Germany,
at the Joint Annual Discussion**

Mr. Chairman,
Governors of the IMF and the World Bank,
Jim Wolfensohn,
Michel Camdessus,

Two years on from the far-reaching currency and financial crises in south-east Asia and the subsequent financial turmoil in other regions, we are now able to look to the future with some degree of optimism. The past few months have witnessed a considerable improvement in the world economic situation and its medium-term prospects in virtually all regions.

In many emerging economies, especially in south-east Asia and Latin America, reforms are showing the first positive effects: the massive currency distortions have been largely overcome and economic recovery has set in. The economic climate has continued to improve in industrial countries as well. All major economies can note continuing favourable growth trends or are in a recovery phase.

This also holds true for the countries that launched the Euro as their common currency on January 1st of this year. The IMF expects growth of 2.8 percent for the Euro area in the year 2000. This performance will contribute to a more balanced growth among major industrialized countries.

At the same time, the Euro has already become the second most important currency in the world. The countries making up the Euro zone are aware of the responsibility this imposes on them. With the continuation of fiscal policy consolidation and structural reform, the Euro countries will create the conditions to promote sustained, vigorous growth and high employment.

But risks remain, despite the improvement in global prospects. Hence it is vital to press ahead with the necessary reforms. We must also be prepared for the possible threats posed by the Y2K problem. The IMF has made preparations to offer temporary financial help to member countries encountering difficulties from the Y2K problem. However, it will be the foremost responsibility of all countries to prepare thoroughly and convincingly for the date change.

The positive results of the past few months should not distract us from further resolute action to reform the international financial architecture. Much has already been achieved in the course of the past months:

- The IMF and the World Bank have enhanced the transparency of their operations, providing the financial markets with an improved basis for decision-making.
- The new Financial Stability Forum will bring together the international supervisory bodies and the Bretton Woods institutions and create the opportunity to improve early identification of crises and strengthen global cooperation.
- Initial progress has also been made on involving the private sector in crisis prevention and resolution. Given the potential for a variety of situations on the part of debtors and creditors, it is reasonable to assume that the precise modalities for the involvement of the private sector can only be determined on a case-by-case basis. What is important, however, from the German perspective is that the financing role of the official sector will be determined a priori in a way that precludes a “bail-out” of private creditors.

The IMF and the World Bank have done excellent work in reforming the international financial architecture. I expressly welcome the contribution by Michel Camdessus and Jim Wolfensohn and the work by the staffs of both institutions. But much remains to be done.

People in economically less-developed countries must also be enabled to benefit from the opportunities for lasting growth, innovation, and socially equitable, ecologically acceptable development provided by globalisation. We must all work together to create the conditions for this.

In view of the continuing vulnerability of many highly indebted poor countries to exogenous shocks, Germany and other major industrial countries have proposed to enhance the HIPC initiative which was put into effect in 1996. The initiative of the Cologne Summit has been brought to a successful conclusion during this Annual Meeting.

The enhanced Debt Initiative presents major financial challenges to bilateral and multilateral donors. Many industrial economies are in a process of budget consolidation calling for cut-backs by the population as well.

Yet, Germany will contribute to the World Bank Trust Fund and will cancel substantial amounts of bilateral debt. Within the IMF, Germany will make an appropriate contribution to financing the ESAF enhancement and the IMF contribution to the HIPC Initiative.

Other multilateral donors must now step up their efforts to secure financing for the HIPC Initiative as well. We must especially endeavour to ensure that efficient and broadest possible use is made of the institutions' own resources.

However, debtor countries' enhanced scope for policy action offered by debt relief will prove only beneficial to them if they pursue sound economic policies and avoid unproductive expenditures to a higher extent than in the past.

The funds released through debt relief must - in the context of a comprehensive poverty reduction strategy - be targeted at social improvement. Promoting health care and education, for example, is a crucial requirement to ensure lasting economic development and hence economic and political stability.

What is important is that the IMF and the World Bank participate in these tasks within the confines of their respective mandates. Poverty reduction strategies are the task of the countries concerned and the World Bank. The World Bank should concentrate on social and structural issues. The IMF should restrict itself to the macroeconomic issues.

Economic growth cannot achieve sustained development and overcome poverty unless it wears a human face. In the same vein, the efforts of the IMF and the World Bank as well as the bilateral and other multilateral donors will fail unless they are backed up by vigorous efforts on the part of the developing countries themselves. This would foster the creation of a political and economic environment within the country which motivates individuals and allows them to put their capabilities to productive use. In this context, encouraging transparency and good governance is indispensable in securing the effective deployment of bilateral and multilateral assistance.

The importance of "good governance" is demonstrated not least by the problems of money laundering and corruption. In any case, recipient countries must always take all necessary actions to avoid a misuse of funds.

The IMF and the World Bank must stick to their respective mandates, but close cooperation between the two institutions, based on mutual trust, is vital. It is also vital for both institutions to retain their role as the central fora of international cooperation. Ensuring this is the task to which we are all committed.