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Statement by the Hon. **WOLFGANG RUTTENSTORFER**,
Governor of the Bank for **AUSTRIA**,
at the Joint Annual Discussion

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The Record of the Previous Year

When I had the honour and the pleasure of chairing this meeting last year, it was at an important crossroads for the stability of the global financial system. We were confronted with a difficult situation which by many was considered to be a very serious threat to the stability and even viability of the world-wide financial system. Today we can say that we have lived up to this challenge. Starting from the deliberations we were then exploring, our common efforts have brought about the outline of a framework which is designed to make our common economic and financial world more stable and less fragile.

Today we are in the process of implementing this framework. Under the heading of "New Financial Architecture" we have devised a set of rules and guidelines which consist of three important blocks:

- Rules to improve and strengthen each country's own economic policy and financial system: In economic policy, we have identified areas of fragility, and are still studying such important questions as the appropriate exchange rate regime. We are in a constant learning process both for countries in an increasingly global economy, and for the institutions which advise them. We continue to give this central question our best efforts.
As for financial systems, we have seen the unfortunate effects of a fragile system on a country's ability to withstand market pressures, and we have also learned that special caution must be maintained when reforming such a system. We are pleased with the common efforts of the World Bank and the IMF to assist countries in the endeavour to strengthen their financial systems.
- Rules to improve the relevant international institutions: This central question has led us to the establishment of new structures, and some new fora have emerged, together with a stronger commitment towards better cooperation. These new structures are all linked to existing ones and reaffirm the central responsibility of the Bretton Woods institutions. I hope these steps will stand the test of time and contribute to institutions that are efficient and effective while being representative of their universal membership.
- Breaking new ground for the interaction of all segments involved, with special emphasis on the private sector: Interaction with the private sector is a very challenging subject, as we all wish for a cooperative, balanced approach that does not resort to excessive regulation. Solutions should be found - as far as possible - in a voluntary discussion process. Still, we are all aware that public funds are limited and cannot be used to assume the risks while the private sector makes the profits.

We have now moved on from the first steps of exploring possible solutions towards the nitty-gritty of making these rules part of our legal and political daily reality. There is still

much work to be done. The general direction of where we must go seems clear. There is widespread consensus about this path. We must clear up the remaining unsolved problem areas and move quickly towards the finalization of implementation.

Poverty Reduction

At the same time, as has been emphasized repeatedly over the past couple of years by the President of the World Bank, it is important to recognize the importance of the social dimension of crises situations. Until recently, such crises had been seen, primarily if not exclusively, as financial crises. The recognition of the social dimension has brought to the surface new challenges to mitigate the effects on the most vulnerable, the poor people in our societies.

I would like to underline how important it is that the World Bank continue its work to help countries to address their structural and social problems. The Bank's strength is its focus on structures and on projects and its engagement in long term work rather than short term emergency lending. It is in this context, that I would caution the Bank not to increase its engagement in this direction, since this certainly would very quickly make it surpass its financial as well as its institutional capacity.

In the context of our continued efforts to fight poverty the important work on HIPC must continue. I appreciate and fully support the enhancements to the HIPC initiative framework as it has been discussed at the Interim and Development Committees. I do appreciate the progress made during the last few days on this framework. I am concerned, however, that while expectations have been raised in the countries concerned, at the same time there seems to be an inclination to bypass a number of important particulars and to leave them open for future agreements. Such an approach, in my view, could do substantial damage to the credibility of the initiative and should be avoided. I would like to emphasize here, that Austria stands ready to provide her fair share of financial support to the HIPC initiative within an agreed framework of fair burden sharing.

Indeed, the principle of fair burden sharing has a variety of implications. Not only do we have to balance the burden amongst industrial countries; also middle income countries might have to bear part of the burden because of the interrelationship between the services provided by international institutions and the implications of allocations of the net income of the institutions for various purposes. Therefore, while seeing some room of manoeuvre for additional contributions by the international financial institutions, I would argue that the demand for such contributions should not be overstretched, for the reasons mentioned and, moreover, in order to protect the financial integrity of the international financial institutions.

Another broadly accepted principle to be observed in the HIPC initiative is **additionality**. All the more it is important that, from the outset, we do have a viable concept about the overall financial requirements and a credible plan how these requirements would be fulfilled. Countries benefitting from the initiative should be given a clear perspective of what they can expect in terms of new financial aid as well as in terms of debt reduction

conditional upon implementation of the mutually agreed measures and programs, not only in the short term but also over an extended period of time. Part of such programs under considerations must include issues of governance, budget management, and the structure of public expenditures including social sector spending and military expenditures.

It is clear that the programs to be implemented have to be observed to their full extent. We welcome the Poverty Reduction Strategy Plans to be developed by the countries concerned as particularly useful instruments. However, I urge both, the IMF and the World Bank, that programs be designed in a pragmatic fashion as far as the underlying economic thinking is concerned. They should take into consideration the lessons learned in the past from what has and of what has not worked in previous programs. It is in this context that I view the concept of a Comprehensive Development Framework, as introduced by the World Bank earlier this year, as particularly helpful and important. At the same time, I fully support the IMF's intention to take into account consistently the social aspects and effects of its stabilization programs, and I welcome the steps to make ESAF a program oriented towards poverty reduction as a central focus.

Middle-Income Countries Must Not Be Forgotten

However, in addition to our efforts to either stem crises or alleviate harshest economic difficulty we must not forget all those countries who are neither immediate victims of financial crises nor in extreme poverty, but are, nevertheless, very much in need of our assistance. There is "everyday business" for all of us that must not be forgotten because of the more extreme cases. Fortunately this has not been the case so far, though our collective focus was on the seemingly more pressing problems. I am talking, among others, of our middle income neighbours and friends, with whom Austria is strongly linked, by virtue of its history, tradition, geography and also its constituency in the Bretton Woods Institutions.

The important long-term cooperation with many countries is a crucial feature of IMF and World Bank activities. Of course, we have to deal with crises when they occur, of course we have to find solutions for our poorest member countries as well. But this must not happen at the expense of those who do not fall into either of these two categories. The increasing focus of both Bretton Woods institutions on a small group of debtors would be regrettable and may be dangerous in the long term. A broad outreach to the membership of the institutions is important, both in surveillance and in terms of appropriate assistance, and should reflect the universality of the institutions.

Let me give you one example: The work of the IMF and the World Bank in the countries now preparing for accession to the EU is a very important and successful effort. It underlines that sound policies and a clear goal that is credibly pursued have been able to shelter these markets to a remarkable extent from the contagion effects of the financial crises felt in many parts of the world.

Furthermore, I would like to emphasize that we attach great importance to the fact that the cooperation between the World Bank and the EU is functioning well. I would like to encourage both Bretton Woods institutions to continue and broaden this cooperation and, as appropriate, coordination of activities with the European Union. This should reflect the growing role and responsibilities of the European Union as one of the major players in the global economy.

Needless to say, the support of the World Bank is particularly important for the region of South Eastern Europe. There we cannot just rely on time to heal the wounds of the conflicts between various population groups, but must undertake active efforts in order to plant the seeds for an eventual reconstruction and reconciliation within this troubled region. This is another important example for the deepening and broadening cooperation between the world community, the EU and the Bretton Woods Institutions, and a particularly crucial one. A good economic basis, and a fair social structure, will be essential ingredients in any concept for lasting peace in the region.

Let me say one word on the programs with Russia. For us, it is clear that at this crucial time the Bretton Woods institutions must continue to support the changeover to a market process in this large country. We urge the Fund, however, to put additional efforts into monitoring its Russia program effectively.

Permanent Adjustment to Change is a Necessity for All Countries

This annual meeting serves to reaffirm of our common goal of making our economies and our cooperation better; of our continued determination to work well together and to find solutions to our common economic problems. It is encouraging to see that we have implemented - and are still implementing - many of the decisions we made last year.

This continuous implementation of new policies, this permanent renewal of our policies, is a sometimes difficult process, but unavoidable for all of us. No matter at which step on the ladder of economic and social development we stand, how large or small we are, in which region of the world we are located - all of us must continuously adjust to the changed circumstances with which an ever changing world confronts us, in order to reap the greatest possible benefits from the globalized and integrated markets of today. Austria is no exception to this rule. Recent policy efforts were directed towards increasing the research, development and technology potential for Austrian firms, to provide easier access to venture capital to Austria's small and medium-sized firms and to strengthen business firms in general. A major tax reform to become effective as of January next year, should be one vehicle to support these endeavors. Future activities all will have the goal of making Austrian business firms and the population more ready to accept change and to be able to profit from it.

To sum up: While I am very pleased to see that the financial crises of the past couple of years seems to be over, and that for a number of countries the macroeconomic situation looks quite promising, the real effects of the crises on the respective populations are far

from over at this point in time. A lot remains to be done to ameliorate their situation, and to avoid - as far as possible - such dramatic social effects in the future.

Finally, there is a recent development which I find worrisome. We are gathered here, because we are all members of the Bretton Woods Institutions. We have all experienced, in different ways, the important positive contributions these institutions can make to our common global goals. Therefore, I deeply regret to see how the credibility and reputation of these institutions are suffering right now from a less than fully constructive public debate. While I believe that intense public debate about the best way how to manage the difficult challenges our complex world presents to us, is necessary, it would be highly regrettable if such a debate led to the weakening or loss of a credible and efficient international framework of cooperation in financial and development matters. Therefore, I call on all countries participating in these meetings to contribute to a more substantive debate about the Bretton Woods Institutions and to help prevent these important institutions from being drawn into national party politics. One possible way out of such situations might be, to refocus the discussion on the tasks assigned to the institutions in their Articles of Agreement, thereby enabling them to maintain their independence from the day-to-day political interests of their shareholders, small or large.

In conclusion, I would like to take the opportunity to extend my congratulation Mr. James Wolfensohn for his reappointment as President of the World Bank.

Thank you, Mr. Chairman.