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

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

The last forecasts established by the IMF confirm the dynamism of world growth. This favorable situation does not dispense us from reflecting upon new kinds of regulations, for a more effective and equitable world. To do so, we must identify the ways to achieve long-term, balanced growth and to define the framework which will enhance this dynamic movement. The international financial community has a considerable responsibility in this regard. It is in this spirit that we have made several proposals. The improvement in the general situation now allows us to focus on the most pressing problems of the poorest countries.

**1. Mobilization for long-term, balanced growth**

Nine months after the successful creation of the euro, the economic recovery in the European Union and the Euro zone is confirmed and the conditions for a robust and sustainable growth are there. Prospects for industry have been improving for the last few months, households' confidence is strong, their purchasing power remains well oriented, and exports are on the upswing. The French economy is substantially contributing to the European growth.

So we are confident in our economic prospects but of course we should remain also vigilant so that the more robust growth that we currently enjoy last as long as possible. We particularly should take into account incipient short-term pressures on consumer prices related to the higher oil prices observed over the last months and the lagging effects of the evolution of the euro. With the view to extend the period of non-inflationary recovery and to significantly reduce unemployment, it is also necessary to continue implementing structural reforms.

In Japan, self-sustained growth is not yet guaranteed, despite recent more favorable indicators. I welcome the commitment of the Japanese authorities to continue policy aimed at avoiding any further growth weakening. External demand can play an important role on the condition that the value of the yen ceases to rise: this analysis is shared by the G7 countries.

Strong growth in the United States remains impressive. In this regard, I welcome the fact that fiscal policy is contributing to reducing the national saving deficit : lowering taxes would only increase existing imbalances. Yet, household saving remains insufficient.

The emerging and developing economies are gradually recovering, after having experienced a very difficult and uncertain period as a result of the financial crises and of the 1998 decline in commodity prices. But improvement remains uneven. The positive signs which have

appeared in the last several months, especially in Asia, should not lead to underestimate the vulnerability of these economies to external shocks or the scope of the structural reforms still to be undertaken. In most Latin American countries, courageous adjustments have taken place. But activity in the region continues to be sluggish, or even losing some ground.

A year ago, our meeting opened in an atmosphere of anxiety. The sound economic policies followed in Europe and the United States, the determined action of the Bretton Woods institutions – I wish to pay special tribute to their Heads - the courage of the governments and people of countries affected by the crisis in the emerging world, made it possible to avoid the worst. Current prospects for world growth are such as to inspire new optimism. We should now consolidate these results.

**2. For this renewed growth, we need a better framework in support of good governance and against money laundering and corruption.**

**a) We need a better framework for banking and tax havens, especially for combating money laundering and corruption.**

To meet the challenge of globalization, we must define new regulations. In international trade, fair competition is crucial for efficient international competition. For the last two years, encouraged notably by France, initiatives have been launched, within the relevant international fora. These should rapidly result in concrete reforms. If not, these scourges will continue to develop. It is in this spirit that France has made the following proposals in favor of :

- more specific and stringent rules, especially as concerns a ban on underregulated legal entities (shield companies) and strengthening legislation against money laundering and bribery.

- strengthening our power to act through the rapid establishment by the Financial Action Task Force and prudential authorities of a list of non-cooperative states and territories and engaging reinforced technical cooperation with those states and territories to implement international standards according to a defined timetable.

- identifying drifts more effectively by an increased mobilization of the international financial institutions in the fight against money-laundering and corruption. These institutions, especially the IMF, could adopt a « Governance Charter », which could review good governance in the context of assessing a country's economic situation (« Article IV »). This could also be a precondition for providing financial support.

- Graduated sanctions going from incentives to sanctions within the multilateral framework and, in bi-lateral relationships, up to and including measures to progressively restrict capital movements with off-shore centers to be implemented under the aegis of the prudential authorities.

**b) The next step : towards a better international financial architecture**

The transformation of the Interim Committee is an important step towards reinforcing the governance of the Fund and improving its functioning. The IMF would thus become all the more effective. We have made a very positive step today, but it is still only a step. For France, the arguments for a « Council » of the IMF remain valid, and a more ambitious reform is perceived as both necessary and inevitable.

The reform of the international monetary and financial system which we launched over a year ago has made real progress. Working out the different codes, strengthening the IMF's surveillance mechanism for assessing potential economic vulnerability, and the definition of an orderly strategy for liberalizing capital flows are all essential building blocks.

There are nevertheless three issues which deserve more progress : exchange rates regimes, regulation of financial activities and the private sector involvement in crisis resolution. In the context of financial globalisation they are essential for a more efficient regulation

First, we need more transparency and consistency as regards exchange rates regimes.

Exchange rate systems and policies have played a crucial role in the recent crises. In conformity with its mission, the IMF must develop a global strategy. But, we should remain pragmatic. Pure floating or currency boards are not the only available alternatives. Had only a polar approach prevailed, the euro would not have become the European currency and would not be a magnet for many European countries. Room should be left for regional cooperation.

Transparency and consistency should prevail : in adopting a particular exchange rate regime, a country should make clear the objectives it is pursuing. The IMF should continue to reflect on this, taking into account the policy choices of each country.

The experience of the nineties demonstrates that, in countries where capital account liberalization has been completed, consistent macroeconomic policies are a prerequisite for appropriately managing or pegging exchange rates. Nonetheless, financial crises in various emerging economies have highlighted that macroeconomic discipline alone does not suffice to sustain pegs and must be accompanied by sound and robust financial systems, effective regulation and supervision, good corporate governance, as well as greater transparency in the conduct of monetary and financial policies.

In regulating financial activities, the issue of hedge funds must be addressed.

Traditionally limited to protecting savings, it is now recognized that prudential regulation impacts the macro-economy. The creation of the Financial Stability Forum, which unites the Bretton Woods institutions and the financial oversight organizations, illustrates this point.

In the context of the Forum's activities, I wish that the will to act prevail. For example, a large commercial bank whose potential difficulties could have a systemic impact on markets, must be subject to prudential regulation to limit its leverage, its liquidity risks, and its exposure concentration. In my view, it is not inconceivable to submit an investment bank or a hedge fund to similar regulations. These institutions can harbor exactly the same systemic risks. For this reason, it seems indispensable to develop regulations applicable to these funds and as a first step to request more transparency in their operations vis-a-vis both their financial counterparts and the market.

Finally, the private sector must be involved in resolving crises.

The principle of private sector involvement in crisis management is a given. But recent examples of negotiation with the private sector have demonstrated the limits of a strictly cooperative approach. We must be prepared to disseminate an agreed framework to facilitate private sector involvement. I would like the IMF, along with other interested institutions, to work as quickly as possible on the basis of the principles proposed by the G7 at the Koeln Summit, and with the intent to achieve equitable treatment for all private creditors.

With the Paris Club principle of comparability of treatment, we have at our disposal a preliminary response. I would ask that in other cases, the international community be sure that all categories of creditors be involved equitably, no matter what the nature of the debts at stake.

We must also be ready, in situations where the cooperative approach upon which we have based our procedures reaches its limits, to have recourse to more forceful solutions.

### **3. The way is open for dealing quickly with the highly indebted poor countries.**

The debt burden in the poorest countries represents a major obstacle to their development. When a country's debt service is greater than its education or health budgets, it is impossible to envisage steady development progress. France has always fought in favor of debt cancellation.

#### **a. It will now be necessary to go much farther to free the poorest countries from debt overhang.**

We must be watchful that this goal is achieved in full accordance with three fundamental principles which France has put forward from the outset:

- solidarity which should lead us to concede the most favorable possible treatment to the poorest countries
- equity, which is the basis of fair burden-sharing between all bilateral and multilateral creditors.

- responsibility, which justifies that these exceptional measures support the social sectors of countries with irreproachable public management.

**b. This new impetus must be equitably financed.**

France has not stalled, waiting for others to pay in our place. France is definitively in the front ranks of funding the initiative. We are waiting for other developed countries to commit to a comparable effort. Countries like France which make large bilateral efforts have a right to expect equal effort from the multilateral institutions and their shareholders. The credibility of our multilateral system depends on **equitable burden sharing**.

I warmly thank Michel Camdessus and James Wolfensohn for the efforts they have made to come to a solution. I know that it was not without sacrifice. It will allow us to take advantage of a global solution, which directs additional resources to the institutions whose situation is critical, thanks to the efforts realized by the IMF and the World Bank to mobilize to the maximum of their internal resources.

**c. Dealing with debt must lead to an effective fight against poverty provided by debt cancellation.**

The dose of oxygen should, by priority, be targeted at the most vulnerable populations and should allow eligible countries to establish basic public services: education for all, access to health care, and the provision of basic infrastructure. For this, it will be up to the developing country governments to adopt economically and socially coherent development policies and to improve governance.

**d. Our consistent action in support of development must also go forward.**

France has increasingly affirmed that in view of the constant reduction in public aid flows, simply dealing with debt and private investment flows in a few emerging countries will not alone suffice to resolve the problems of development.

Maintaining sufficient flows of public aid is vital. The concessional loan funds, principally IDA and the African Development Fund, at the multilateral Banks must in fact receive the resources committed during the recent replenishments.

At the moment when the WTO is opening a new cycle of commercial negotiations, it also behooves each of our governments to reflect on how they will affect development in poor countries. The new cycle of negotiations should be an opportunity for us to reaffirm the importance of developing country access to developed countries' market. As you know, France and Europe have long ago incorporated this dimension into their relations with the developing countries, notably through the Lomé convention.

Regional integration is also a necessary step. Integration is a source of political stability, of convergence, and of peer pressure between governments. Integration gives regional

economies critical mass in the global one. It's not a question of creating new regional fortress, but of facilitating global integration.

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To conclude, I would like to emphasize two points:

- firstly, the global economy is doing much better than a year ago. This calls for two "coups de chapeau". One to some emerging economies, notably in Asia, which have demonstrated remarkable efforts to adjust in a very short lapse of time. The second to the international financial institutions, and in particular the IMF and the World Bank, which have demonstrated in the most difficult circumstances lucidity, determination and courage.

- secondly, this is not the time for complacency. The global economy is in much better shape but there remain risks and challenges. We must demonstrate that we can take advantage of a quieter and calmer period to embark resolutely on the reforms that are needed.