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WORLD BANK GROUP

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT  
INTERNATIONAL FINANCE CORPORATION  
INTERNATIONAL DEVELOPMENT ASSOCIATION  
INTERNATIONAL CENTRE FOR SETTLEMENT OF INVESTMENT DISPUTES  
MULTILATERAL INVESTMENT GUARANTEE AGENCY

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

Mr. Chairman, Dear Governors and delegates,

We are gathering today in the context of a very challenging situation for the world economy and the Bretton-Woods institutions. Policy makers are committed to restore confidence against the background of a weaker than expected recovery, unresolved financial and external imbalances, and difficulties in some emerging market economies. In spite of this difficult context, advanced economies should not step back from their commitment to reduce poverty and to support the Bretton-Woods institutions in their endeavor to foster a sustainable development strategy.

**I / The expected recovery is underway but uncertainties remain and serious issues need to be addressed**

Since last April, growth prospects are less bright than previously expected, in spite of accommodative fiscal and monetary policies. In addition, the prospect for recovery is hampered by the persistence of imbalances and the lack of structural reforms. Confidence has also been affected by the situation on financial markets and the uncertainties surrounding the quality of financial reporting, accounting practices and corporate governance. Action is underway to address these weaknesses and to restore confidence.

The indebtedness of non-financial agents is rising in the US, and to a lesser extent in the euro area. The significant increases in housing prices has contributed to partially offset the negative wealth effects entailed by falling stock prices; but appropriate attention must be paid to avoid the formation of a real estate bubble.

Widening financial imbalances have contributed to the deterioration of external current accounts. In this respect, the situation in the industrialized countries considered altogether remain a serious issue. According to IMF data, industrialized countries as a whole are running an increasing current account deficit since 1998, which would remain at a very high level over the 2002-2003 period. This means that investment growth in more advanced economies continues to be significantly financed by the savings of the rest of the world, which should not be a permanent feature of the global economy.

Finally, in the industrialized world as well as in emerging economies and in transition countries, structural reforms are of the essence in order to raise the level of growth potential, and contribute to sound and sustainable higher activity.

## **II / Our current initiatives on preventing and resolving financial crises are promising**

Our action in preventing and resolving crises is being strengthened in three areas.

First, we have collectively reaffirmed that a precondition for an orderly crisis management relies upon more predictable decision making process regarding the use of Fund's resources. In that regard, the presumption of clear access limits to Fund's resources is key. Recent discussions are positive steps in this direction.

Second, mounting concerns about debt sustainability in emerging countries press us to design and develop instruments to address debt restructuring problems. In this regard I welcome the prospect of concrete progress on the contractual approach achieved through the work of the G10 on models for collective action clauses in sovereign bond contracts. We expect strong involvement by market participants and issuers in this project in order to promote a wider use of such clauses. European Union countries have committed themselves to this process by pledging to include such clauses in their bonds issued under foreign jurisdictions. Progress has also been made on the proposals put forward by the IMF Management for a new mechanism for restructuring sovereign debt, and we should be in a position to consider a concrete proposal at the next spring meeting. To contribute to reaching this objective, we should without delay build upon work already done to write down a code of appropriate conduct for concerted and informal debt restructuring. Indeed it has been our constant experience that agreed common principles have always been beneficial to global financial stability.

Third, increased transparency and governance in the international financial system is needed. In particular, it is important to support the efforts made by the FSF and IMF to enhance transparency in offshore financial centres and the work within the OECD on harmful tax competition. The decisions by the Executive Boards of the IMF and the World Bank to enhance their mobilisation in the fight against money laundering and terrorist financing, in conjunction with FATF, are very much welcome and we are looking forward to reaping the benefits of their implementation.

### **III/ Reaching a sustainable development for all calls for a new momentum**

In Doha, in Monterrey and in Johannesburg, the international community has intensified its action to reduce poverty and promote sustainable development.

The European Union has made considerable efforts to promote developing countries' exports. More than 40% of the EU's imports now come from developing countries and it buys two-thirds of Africa's exports. Its generalised system of preferences is one of the most generous in the world and its "Everything but Arms" initiative adopted last year is a key contribution to the poorest countries. If all industrialised countries were to adopt this initiative, it would create a powerful leverage effect for poor countries' exports.

The IMF and the World Bank should encompass their trade approach in a broader and comprehensive trade-and-development agenda. The IMF should also make proposals for concrete support, more specifically for managing the transitory negative effects of opening up markets. The Poverty Reduction and Growth Facility has to play a strong role, which means it is critical to ensure that the facility is maintained.

At a time when certain emerging markets are once again coming under inflationary pressure, it may not be amiss to remember the dent made by excessive inflation in the purchasing power and living standards of the poorest households. Price stability must remain one of the priority objectives of economic policy in order to ensure sustainable growth. This naturally calls for a sound monetary policy as well as a tight budgetary discipline. We should not forget that inflation acts like a tax. However, it is a tempting solution for the least demanding governments, since its consequences seem painless.

Among the several instruments and initiatives that aim at achieving progress towards sustainable development, I would like to focus on four of them.

The first is obviously official development assistance. It needs to be increased, as we agreed in Monterrey, while not losing sight of the quality of assistance. This is not only necessary if we want these large flows to be managed efficiently, but it is also what developing countries want. President Chirac has announced in

Johannesburg that French ODA will rise to 0.39 % of GDP in 2003, 0.5 % by 2007 and 0.7 % within 10 years. According to the 2003 budget request, France will devote 0.39 % of its GDP to ODA : this confirms that we are already progressing towards this goal. France expects to achieve this aim with newly developed bilateral cooperation instruments – particularly “debt reduction and development” contracts.

Sustainable development also requires a strengthened real economy in the poor countries, in particular small and medium-size businesses and infrastructures. The initiative launched in Johannesburg by President Chirac and Prime Minister Blair will allow to generate new investments of at least € 1 bn leveraged by the € 100 m to be made available by both countries. We call on other donors to join this initiative.

Another significant step towards sustainable development is the NEPAD initiative proposed by the African nations. When implemented, it will provide a framework for political and economic governance geared to effective large-scale assistance for a continent with enormous needs.

Finally, the HIPC initiative should be fully implemented. The HIPC initiative provides substantial support in terms of debt reduction and increasing social expenditure. I note that the initiative is being implemented more slowly than we would like. On the other hand, speeding up implementation should not result in undermining the quality of the economic programs agreed within this framework. France will take its full share of a new replenishment of the HIPC Trust Fund.

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In a context of doubts on the strength of the global recovery and political uncertainties in several emerging economies, the Annual meetings of the Bretton-Woods institutions provide a new opportunity to reaffirm the key role of these institutions, under the leadership of Horst Kohler and Jim Wolfensohn, in preserving global financial stability.