

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. **GERRIT ZALM**,
Governor of the Bank for the **NETHERLANDS**,
at the Joint Annual Discussion

**Statement by Mr. G. Zalm
Minister of Finance of The Netherlands
Annual Meetings 1997**

Ladies and gentlemen,

I want to thank the Government of the People's Republic of China and the Hong Kong Authorities for their kind hospitality during these Annual Meetings of the IMF and World Bank.

Globalization calls for strong multilateral institutions. The past year has proven this point once again. Both Fund and Bank took up new challenges in as wide a field as the HIPC-initiative, currency developments in some emerging markets, amendment of the Articles on capital liberalization and private sector development. The underfinancing of the debt-initiative might endanger its successful implementation, which would be particularly unjust for countries with a strong adjustment track record. While Management and staff of both institutions stood the test, it is now for members and shareholders to act with the same vigilance on the provision of minimal necessary financial donor resources. The Netherlands already contributed its fair share. Fortunately, there is also good news to report from these meetings. We welcome the agreement on the IMF quota increase, which provides the Fund with the necessary own resources to finance the future demand for Fund credit. We also welcome the conclusion of the SDR-discussion and the agreement on the MIGA capital increase.

Let me indicate some points of future work for Fund and Bank.

We welcome the ongoing work on strengthening surveillance, transparency and early warning mechanisms by the Fund, and the upcoming discussion on new guidelines for post program monitoring. On cooperation between Fund and Bank, while progress has been made, we look forward to the implementation of the financial sector strategy by both institutions and their application of the Core Principles of the Basle Committee. The case of Thailand exemplifies the catalytic role of Fund financing. We want to preserve this principle in the amendment on capital liberalization: the Fund should not finance large, or sustained outflows. I would stress however, that preventing a crisis is better than the cure. The recent turmoil in South East Asia has illustrated once again the necessity of an appropriate sequencing in connection with economic and structural reforms. This highlights that capital account liberalization is a sign of strength, not weakness. Liberalization should therefore not imply increased use of Fund resources. On the policy side we would favor further discussion in the Board of the

characteristics of different exchange rate regimes and early Board consideration of the paper on lending into arrears.

We welcome the increased attention by the World Bank Group for private sector development and think that the recent staff proposals are a useful first step towards an integrated private sector strategy. In this strategy the comparative advantages of each part of the World Bank Group -IBRD, IFC and MIGA- should be used, in order to have their respective roles complement and reinforce each other to the fullest extent possible.

We continue to support the efforts of the World Bank Group in implementing the reforms stemming from the "Strategic Compact" exercise. The first monitoring report on this issue already shows promising results.

Also the Netherlands supports the increased emphasis the IMF and the World Bank Group put -within their respective mandates- on the promotion of Good Governance and the combat of corruption. We welcome the recently adopted guidelines.

In the near future, in many countries ageing of the population will require additional resources. Without adequate policy reactions public finances would deteriorate. Besides, there will be important implications for the functioning of labor and capital markets, pension systems, and balance of payments. This is not only the case in advanced economies. The problem of ageing will proceed even faster in developing countries. Both advanced and developing countries will need to increase the incentives to save and invest and to enhance the efficiency of the pension system. We would welcome further policy-oriented work on these issues by both institutions.

In the Netherlands several initiatives are under way in this field. A separate fund earmarked for future public pension obligations has been set up to channel additional government savings. Policy measures to increase the participation rate of people over fifty are under discussion. This could be achieved by reducing the financial incentives for early retirement and at the same time increasing the opportunities for training for elder workers. Privatization of pension schemes and promoting competition between pension funds are being undertaken.

Finally, I want to turn to the effects of the start of the European Monetary Union. First of all, the EMU will affect certain aspects of the IMF itself. For which we have to look for practical solutions. In doing so we must build on existing procedures and precedents on the basis of the guiding principle that the individual membership of countries in the Fund will be retained. No change will be needed in the current rights and obligations of the individual member states vis-à-vis the Fund.

Furthermore, the EMU will be a very important historic event for the international monetary system and could potentially lead to a better managed international financial system. This requires that the criteria on monetary and budgetary convergence are strictly applied at the start of EMU. This has to be followed up in stage three of EMU by sound fiscal policies as set out in the Stability and Growth Pact and a firm adherence to the treaty provisions regarding the independence of the ECB. Only in this way the Euro-zone will become a zone of price

stability and the introduction of the euro will be beneficial for growth and employment in Europe, with positive effects for the world economy.