

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 JUNCKER**,  
Governor of the Fund for **LUXEMBOURG**,  
on behalf of the Member States of the European Union,  
at the Joint Annual Discussion

**Statement by Mr Juncker, President of the Council of the European Union (September 23, 1997).**

1. As Luxembourg currently holds the Presidency of the Council of the European Union, I am honoured to address this meeting on behalf of the Union. I will focus my speech on three subjects: the outlook for the world economy from the European perspective, the progress in the process to a European economic and monetary union, and some comments on how the European Union is contributing to international financial stability.

2. The growth pattern of the world economy appears to be satisfactory. Non-inflationary growth is being sustained by low interest rates, wage moderation and continued efforts towards sound public finances. Although there are contrasts in economic performance across countries, the fundamentals for a sustained development are generally in place. Thus we can reasonably expect growth to continue at a satisfactory pace in the next few years.

3. In the developing world, the median growth rate has continued to outperform that of the industrial countries, thanks to the increasing implementation of sound macroeconomic policies accompanied by efficient structural measures. A number of South-East Asian countries, however, have recently experienced serious financial-market turbulence. These developments highlight the urgent need for containing external deficits better, reducing the reliance on short-term foreign borrowing, maintaining realistic exchange rates, and strengthening fragile banking systems. In the particular case of Africa, it is encouraging to note that the average growth

performance has been rising steadily over the recent past.

4. Among the industrialized countries, the US economy is growing at a sustainable rate with inflation broadly under control, and unemployment figures low. In Japan also, the economic environment has improved, notably through adequate fiscal and monetary policies. And European economies are also back on a positive track supported by an improved convergence of national economies, demonstrated by low inflation and interest rates.

5. In most European countries, however, the recovery has not been sufficiently strong to reduce high unemployment, despite the progress made over the last twelve months. Growth has been too weak in the recent past, but above all, some European countries suffer from the fact that growth creates fewer jobs than in other countries. Given this, we are conscious that the best way to increase employment is to implement the structural reforms necessary to improve the functioning of labour, product and financial markets. This would at the same time improve growth prospects. Progress has been made over the past year, but more needs to be done. Structural reforms will have to continue, as well as the process of budgetary consolidation which has allowed significant reductions of short-term and long-term interest rates. Such perseverance will boost consumer and business confidence, and can be expected to lead to higher investment and new job opportunities.

6. The soundly based recovery supported by structural reforms and a positive international environment are assisting European economies in their transition to Stage 3, the final stage of the European economic and monetary union. The introduction of the single currency will constitute a historical event opening new avenues for growth and employment in Europe, and

providing large opportunities for our trading partners.

7. Since the last meeting of the Interim Committee, further significant progress has been made in economic convergence of Member States and the technical preparation of economic and monetary union. In the Spring of 1998, European Heads of State or Government will decide which of the Member States of the Union will belong to the first group of countries with the euro as their single currency. This decision will be based on the achievement of a high degree of sustainable convergence as measured by the convergence criteria of the Treaty, referring to government financial positions, inflation, and interest and exchange-rates. On the latter three, almost all Member States are performing well. As regards budgetary consolidation, considerable progress is being made. While all the Member States are making efforts to meet the agreed reference value, some differences of rhythms and results remain.

8. The strong commitment of European governments to reduce budget deficits and the stock of public debt in relation to GDP is based not only on EMU requirements but also on their common conviction that sound public finances are a precondition for sustainable economic growth. Moreover, they are convinced that European countries will have to prepare themselves for increasing demographic pressures which call for determined action to restructure and rationalize public expenditure.

9. European Heads of State or Government, meeting last June in Amsterdam, have added further significant elements to the ongoing preparation of the technical, legal and institutional framework of European economic and monetary union. First, a Stability and Growth Pact was endorsed, which will help to maintain budgetary discipline in the EMU.

Secondly, they decided on the principles and fundamentals of a new exchange-rate mechanism which will link participating currencies of Member States outside the euro area to the euro. Thirdly, they agreed on a Resolution on Growth and Employment which focuses policy making more intensively on creating favourable conditions for higher employment, and the Treaty of Amsterdam includes a new chapter in order to strengthen the co-ordination of Member States' policies on employment. The Heads of State or Government have also reached complete agreement on the two Regulations which constitute the legal framework for the use of the euro.

10. In addition, Heads of State or Government agreed to improve the process of economic co-ordination in Stage 3 of EMU so as to give better effect to the Treaty provision that Member States should regard their economic policies as matters of common concern. Regarding EMU's implications for the IMF, Member States of the European Union will contribute to the discussion in a constructive and pragmatic manner. On some of these issues, the European Union and the IMF have already started work.

11. The Amsterdam Summit also concluded an inter-governmental conference with the decision to adopt new amendments to the European Union Treaty. The process of modernization of the European Union is now clearly under way, although further work is needed in the institutional field. Nevertheless, the results achieved in Amsterdam allow the European Union to launch a process of enlargement. These negotiations will be opened as soon as possible after December 1997, and will be one of the main challenges the European Union will face over the coming years.

12. The European countries are already major actors at the international

level, while the Union itself is progressively acquiring this status. We are conscious of the responsibility which this entails, and will contribute actively to promoting international co-operation. Allow me to comment briefly on our contributions in three areas: Europe's role in providing financial assistance, in co-operating with other regional bodies, and in its support of the IMF and the World Bank.

13. First: we are firmly committed to support to the Heavily Indebted Poor Countries. The Member States, notably in the framework of the Paris Club, and the Community institutions have indicated that they will participate in the initiative on debt relief launched by the international community after the Lyon Summit; They will provide an appropriate contribution to this international commitment in favour of the poorest countries of the world. This participation of the European Union, together with its Member States, confirms our continuing will to help developing countries towards fast and balanced progress.

14. Second: The European countries are already a major part of the international monetary system. A successful EMU, underpinned by sound macroeconomic and structural policies, is likely to become a major pole of that system and to contribute to its stability. In other areas, we maintain regular contacts with the Central and Eastern European countries and the EFTA, and stand ready to develop similar relations with other countries or regions. Recently, on 19 September, an Asia-Europe Finance Ministers' Meeting was held in Bangkok. It illustrates our commitment to international co-operation and our wish to contribute to a stable overall economic environment.

15. Of course, the IMF and the World Bank continue to occupy a key role

in our approach. The Member States of the European Union welcome the crucial contribution of these institutions to the improvement of the international economic and financial framework. We are determined to support them in their efforts to contribute, in accordance with their respective mandates, to a sound international financial and monetary system as well as to sustainable economic development.

16. Hence, we welcome the agreement to broaden the Fund's mandate to include the promotion of orderly and sustainable liberalization of capital movements. Movement towards increased capital account liberalization highlights the Fund's role in maintaining order in the international monetary system and the need for sustained sound macro-economic and structural policies.

17. The size of the Fund and its liquidity position need to take into account the deep changes in the world economy as well as the mandate of the institution. We therefore welcome the recent decision on the basic features of the eleventh quota review.

18. Let me add some more words on a topic which will command our particular attention over the next few months: the improvement of the World Bank's operational performance. The Member States of the European Union encourage the World Bank in its endeavours to adopt better working methods, and we welcome the strategic compact which aims to make the Bank more cost-effective, flexible and responsive to client needs.

19. Regarding the mission of the Bank, the Member States of the European Union will actively contribute to finding satisfactory solutions for issues such as the need for a timely increase of the assets of the Multilateral

Investment Guarantee Agency (MIGA).

20. To conclude, I would like to stress again the resolute commitment of the European Union to the stability and the efficiency of the world economy. We are convinced that EMU will be a decisive contribution to that objective and are determined to do what is necessary, in full compliance with the Maastricht Treaty, to ensure that EMU starts on schedule on 1 January 1999.

21. Thank you Mr. Chairman.

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