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INTERNATIONAL DEVELOPMENT ASSOCIATION

INTERNATIONAL CENTRE FOR SETTLEMENT OF INVESTMENT DISPUTES

MULTILATERAL INVESTMENT GUARANTEE AGENCY

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Statement by the Hon. **THEO WAIGEL**,  
Alternate Governor of the Fund for **GERMANY**,  
at the Joint Annual Discussion

**Address by**

**Dr. Theo Waigel,**

**Federal Minister of Finance**

**of Germany,**

**to the Annual Meetings**

**of the IMF and the World Bank**

**Hong Kong, 23 September 1997**

First of all I should like to thank the Chinese Government and the Government of the Special Administrative Region of Hong Kong for an excellent organisation of this year's Annual Meetings as well as for their warm hospitality.

*[Globalisation both opportunity and challenge]*

Increasing interdependence of our economies, buoyant international trade and the integration of our capital markets are essential prerequisites for increasing global prosperity.

The spread of globalisation has enabled many countries to gain access for the first time to international capital and product markets.

But intense global competition confronts our economies and our economic and fiscal policies with new challenges.

If economic and fiscal policies are out of line with economic fundamentals and if policies remain unadjusted, the markets will respond by reassessing

credit risk and possibly by massively withdrawing financial resources.

*[Currency turbulence in South-East Asia must not stop liberalisation of capital transactions]*

Delayed implementation of exchange rate policy adjustments in combination with other risk factors such as excessive and short-term foreign-currency debt and a high and potentially rising current account deficit will inevitably be followed by a loss of growth and jobs.

This has been clearly evident in some south-east Asian countries in the past weeks and months. It is now important for those countries to implement the necessary reforms and make up the international loss of confidence.

We must not conclude from the currency turbulence in parts of this region that capital transactions should be more strongly regulated or controlled. Rather, free international capital movements are a central element of an efficient resource allocation and therefore a precondition for rising global prosperity.

*[Securing the stability of national financial systems]*

Experience in many industrial economies and in some emerging countries as well has shown that liberalisation must go hand in hand with the establishment of stable financial market structures.

The IMF and the World Bank can - and in fact they must - assume a key role in these endeavours.

*[New IMF mandate for capital transactions]*

Against the background of globalisation it is appropriate for the IMF to be given a new, extended mandate to include promoting the liberalisation of capital transactions.

Extending and thus modernising the IMF Articles is essential to ensure that the IMF is able to make an effective contribution in this area of central significance for the efficiency of the world economic and monetary system.

*[Importance of surveillance unchanged]*

Recent events in south-east Asia have shown that the classic role of the IMF should continue to be the central pillar of its activity. In particular, this includes the surveillance of economic policies in member countries to prevent crises and the temporary provision of conditional financial resources in the event of balance-of-payments need.

Therefore, I welcome the consensus we reached here in Hong Kong on increasing the Fund's resources. I am grateful for the spirit of cooperation that has prevailed among IMF members. I should also like to thank Michel Camdessus.

But interdependent markets also call for enhanced economic policy surveillance by the IMF. This purpose is served by setting up standards for the publication of economic statistics which in turn will provide a basis for intensifying surveillance in the interest of transparency.

*[World Bank reform programme is appropriate]*

The IMF and the World Bank perform complementary activities.

The adoption of the World Bank reform program - the Strategic Compact - in the past year was an important landmark on the road to reorganisation. I should like to congratulate President Wolfensohn for that. The reform process now set in train aims generally to make the World Bank more flexible, more responsive to customer needs and more efficient, and to bring its range of services more closely into line with its development policy mandate.

In this way, the World Bank is responding both to the new global economic and social challenges in its environment and to the growing diversity in the needs of its customers.

*[IDA commitments to be fulfilled]*

The reforms envisaged at the World Bank will improve its efficiency in promoting sustainable development especially in the poorest countries.

IDA is the central global instrument in the fight against poverty and thus has a key role to play in Africa. The poorest countries of the world need adequate access to aid on concessionary terms to facilitate their successful integration into the global economy which would be reflected in improved living standards for their peoples.

The development policy mandate of IDA and its achievements to date should motivate all donor countries to honour their commitments and to put IDA finance on a sound footing. This is also true for the African Development Fund.

*[EMU as contribution to stability]*

Finally, a word on the realisation of European Economic and Monetary Union. Economic convergence has made further progress.

The inflation rate in the European Union has been cut by half over the past few years and now stands at an average of about 2 % for all member states. This is the lowest since 35 years. Interest-rate differentials have fallen to an all-time low. Further progress has also been made on fiscal consolidation. As long as the EU member states do their homework thoroughly, EMU will start on time on January 1, 1999.

Europe wants to see a strong and stable euro, and has taken the decisive steps for this. A principal commitment of the future European Central Bank will be to maintain price stability. Its independence is guaranteed under international law.

The economic policy pursued by member states in the Economic and Monetary Union will remain the responsibility of the respective governments, but the coordination of these policies will be intensified to make sure that they are attuned to the stability objective of EMU.

Maintaining stability is also the objective of the stability and growth pact we Europeans concluded a

few months ago in Amsterdam on the level of heads of state and government. The pact requires Member States to pursue stability-oriented fiscal policies and maintain a budget “close to balance or in surplus”. In any case, budget deficits in excess of 3 % of gross domestic product have to be avoided.

Europe's future currency, the euro, will be no less stable than other key currencies. A strong and stable euro is a further contribution by Europe to maintaining the stability of the international monetary system and to promoting prosperity throughout the world economy.