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

**STATEMENT BY MR. JEAN-CLAUDE TRICHET
GOVERNOR OF THE BANQUE DE FRANCE**

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

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The Annual Meetings in Hong Kong will long be remembered by our institutions as being among the most successful. The Interim Committee agreement on a significant increase in Fund quotas and a one-time allocation of SDRs to end the problem of inequity, on the one hand, and the Development Committee's support for the IMF and World Bank action plan to promote good governance and combat corruption, on the other, stand as significant advances. Another important achievement of this meeting, in my view, is the agreement to draft an amendment of the Fund's Articles of Agreement to promote the orderly liberalization of capital movements.

The objective of achieving free capital movements throughout the world is quite ambitious. As demonstrated by the recent financial crisis in Asia, such freedom creates new risks and imposes new forms of discipline. It is therefore useful to reflect on certain lessons from that crisis, to be able to determine precisely what the concept—new to our discussions—of orderly liberalization means. I will highlight two aspects, related to market information and the pivotal role of the IMF.

As a result of the strengthening of surveillance following the Mexican crisis, the IMF anticipated the crisis in Thailand, pointing out to anyone willing to listen that certain external deficits had become unsustainable and that the obstinate defense of exchange rates no longer based on sound economic policies was dangerous and bound to fail. It has been asked whether a more public expression of the Fund's concerns would have been appropriate. As far as I am concerned, I consider that the Fund has done well. But, I agree that public awareness of the IMF's independent and informed judgment, as is done for industrial countries with each report on the World Economic Outlook, may usefully contribute to the proper functioning of markets.

The second lesson is that only an institution with universal scope such as the IMF is capable of fulfilling all of the conditions necessary for handling crises in a globalized economy. The needed financing can be mobilized only on the basis of member countries' confidence in the firm and objective IMF conditionality. Nothing could be more dangerous than organizing financial support without backing it with the discipline provided by the IMF, be it in respect of governments or of markets. Taking Thailand as an example, I would reiterate that it is essential that commitments entered with the IMF be strictly honored on time and that the financial sector restructuring currently being negotiated with the World Bank result in losses being shared equally by all improvident creditors.

Even more important is that, to be successful, the liberalization of capital movements must proceed in an orderly fashion. Capital movements enter and exit freely. A government cannot applaud inflows that enable it to finance accelerated growth and then denounce outflows when an excessive external deficit or economic policy blunders drive investors away.

The fundamental purpose of an amendment of the Articles is the universal recognition that the freedom to save and invest provides the conditions for a sustained growth and therefore for greater wealth, for both providers and recipients of capital flows. From this perspective, the prosperity of Hong Kong—an open economy if ever there was one—and China's leap forward since the adoption of the open-door policy are more eloquent than any demonstration.

The first condition for successful liberalization is irreversible acceptance by each country of the discipline required by openness, the first of which is macroeconomic discipline. Reversals are always costly for countries that decide on such a course of action. Lost confidence is only slowly regained. The definition of a liberalization program should explicitly aim at the irreversibility of measures taken, although it is impossible to rule out imposing exceptional, limited controls in the event of a setback.

In this connection, the preparatory efforts have quite rightly emphasized the necessity of a pragmatic, gradual approach that allows for transitions. I favor this caution and believe that each country should determine what it can do, based on the stage of development of its economy. However, I would also remind you that hesitating too long can be costly as it entails the risk of marginalization from the increasingly interrelated international flows in goods, services, and capital, and thus of missing out on opportunities for growth. For some countries, acting in time means waiting until conditions are right; for others, it means moving faster.

Another aspect of this orderly progression is the balance between internal and external liberalization. We all stress—and the IMF will never do it too much—the importance of strengthening the safety of the financial sector and the reliability of prudential control systems. Clearly, the IMF will play a decisive role in detecting potential crises through its surveillance, and in disseminating and monitoring the implementation of the core prudential principles formulated by the Basle Committee in close conjunction with the banking supervisors of emerging and transition countries. It is also particularly welcome that the World Bank is committed to giving clear priority in its activities to the restructuring of financial sectors.

Although it is the most important, the prudential aspect is not the only concern. Three examples come to mind : the need for a vigilant conduct of monetary policy, particularly in the occurrence of excessive short-term capital inflows denominated in foreign currencies; increased competition among banks, specifically promoted by greater openness to foreign banks; an appropriate surveillance and regulation of domestic capital markets.

Finally, liberalization should apply evenly to all capital movements. I have some reservations about the arguments suggesting that liberalization of inward direct investment should be excluded from the mandate of the IMF on the grounds that non-economic considerations are frequently involved in the decision to maintain restrictions. Foreign direct investment makes an essential contribution to growth and balance of payments stability. Excluding such capital flow and having the IMF focus narrowly on achieving freedom of financial and short-term capital movements would not be consistent with our efforts to pursue an orderly liberalization. Naturally, the IMF should acknowledge the legitimacy of restrictions specific in their purpose, limited in their impact, and motivated by considerations of national interest unrelated to the conduct of economic policy.

I now turn to the creation of the euro, an event which will be of the utmost importance both for European countries and the international monetary system.

I stress that France is firmly committed to the achievement of European Monetary Union.

A few days ago in Mondorf, during an informal meeting of the Economic and Financial Council of the European Union, the Ministers of Finance and Governors sent a clear signal of their determination. They announced that the list of countries and bilateral conversion rates, which will enter into force on the 1st of January 1999, will be made known on a single date next spring. This is an important decision that was well understood in Europe and throughout the world.

European Monetary Union will be achieved in accordance with the criteria and the timetable set forth in the Treaty. Accordingly, the convergence of many European countries toward the performance of the best among them warrants special mention.

Collective progress in the area of monetary stability, the curbing of inflation, the lowering of long-term interest rates, and the reduction of government deficits has been substantial. As far as France is concerned, I would particularly like to mention our long-term interest rates, which are among the lowest in the European Union, our control over inflation, and the orderly reduction of budget deficits.

After 1999, the European Monetary Union should—and will—serve as an area of stability.

A sound and stable euro will guarantee that. The citizens of Europe want a single currency that is credible and that inspires trust. Confidence in the single currency in Europe and worldwide will enable Europe to benefit from the best financing conditions. This confidence will be reinforced by the independence of the European System of Central Banks, which will fully benefit from the strength

of the most credible national central banks of the countries using the euro, whose legacy it will inherit.

Fiscal stability will be ensured by the determination of governments to consolidate public deficits on a sustainable basis in the context of the Stability and Growth Pact agreed in Amsterdam in June 1997.

Lastly, the strengthened coordination of economic policies decided upon in Amsterdam will clearly benefit integration of the euro zone.

Thus, European Monetary Union has the potential to promote confidence, growth, and employment. Following a French initiative, a summit on employment in November 1997 was announced in Amsterdam, as employment is one of France's primary concerns. However, growth alone cannot bring about a sufficient reduction in unemployment if we fail to implement the necessary structural reforms, particularly in respect of adapting training to the needs of the economy. This is an important task for our country, as it is for most European countries.

Finally, let me commend the World Bank and the IMF for successfully implementing the initiative for reducing the debt of the heavily indebted poor countries approved last year, and for their productive cooperation with the Paris Club. The main challenge now is for this initiative to be implemented consistently, both by eligible countries, which should hasten to conclude and implement their adjustment and reform programs, and by the institutions, through the effective mobilization of financial support.

In this regard, France is concerned by the temptation to offer verbal support without any financial participation, which continues to exist here and there, and by the persistent silence of certain countries concerning their contribution to the financing of the self-sustained ESAF and the IMF contribution to the HIPC Initiative. We should therefore refrain from making new promises before securing the financing of our commitments.

This does not mean that further progress is impossible. I particularly hope that other creditors will forgive development assistance debt, as France and other European countries have been doing for several years and as the United Kingdom decided to do, and that the World Bank will explicitly consider ways of helping the African Development Bank contribute to the debt relief initiative.