DISCUSSION OF POLICY AT SECOND JOINT SESSION[1]

STATEMENT BY THE GOVERNOR OF THE BANK AND THE FUND FOR SPAIN

Pedro Solbes

As Spain currently holds the Presidency of the Council of the European Union, I have the honor to address this meeting on behalf of the Union and, for the first time, its fifteen member states.

In the first half of 1995, some deceleration in the growth of the industrial countries as a whole was expected, mainly owing to a moderation of GDP increase in the United States. Meanwhile, a sustained path of growth was expected to continue in the European Union and a recovery was forecast for Japan.

Since the beginning of the year, several factors have influenced the performance of the industrial countries' economies; the Mexican crisis and the financial instability and exchange rate turbulence in the first quarter of 1995 adversely affected economic activity.

After high GDP growth and emerging inflationary expectations in 1994, the U.S. economy is moving towards more sustainable growth rates this year. Stability-oriented monetary policies have contributed to this pattern and the effects of tighter monetary policies in 1994 seem to be materializing now. Furthermore, the economic impact of the recession in Mexico may have affected the U.S. economy. In Japan, the situation has deteriorated. The strong appreciation of the yen as well as large amounts of nonperforming loans in the banking sector and dwindling consumer confidence are hampering the recovery. With lower growth of world economic output, the export performance of the European economies will slow down and GDP growth can be expected to moderate as well.

From the end of March, calm was progressively restored in the international financial markets, partly due to the cooperation among the major industrial countries. Interest rates and exchange rates now provide a more favorable setting for sustained economic growth in the industrial economies as a whole. Continued cooperation among the major industrial countries, based on sound domestic policies, could prove helpful in stabilizing exchange markets further.

[1]October 10, 1995.

Employment responded to the cyclical improvement, but unemployment rates in the European Union are still high. This highlights the need for additional efforts to reform our labor markets and to increase the number of jobs which can be created during the recovery.

Inflation remains subdued in most industrial countries. Some of those that have experienced sizable currency depreciations are witnessing inflationary pressures, which in some cases have prompted monetary authorities to react by increasing interest rates. In these countries in particular fiscal policy should be, and in some cases has been, geared to reducing domestic absorption. Due to high deficits, further fiscal adjustment is needed in most European Union countries in order to reduce inflationary pressure and to strengthen economic growth.

Further fiscal adjustment is also needed in the United States to help raise the extremely low savings ratio, which may be one of the structural causes of the weakness of the dollar. In Japan, while there has been a welcome easing of monetary policy, there may be some scope for a further effective easing of the fiscal stance in order to provide additional stimulus for recovery. The most important task, however, will be to strengthen business confidence and to support the process of balance-sheet adjustment of the banking sector. Structural policies aimed at a rapid deregulation and liberalization of the economy are also warranted.

In the European Union, a higher degree of convergence, as required by its Treaty, remains pivotal to setting up the monetary union and to ensuring integration and reaping the full benefits of the internal market. Progress toward the fulfillment of the convergence criteria has in some cases been less than satisfactory. The European Union and its member states will therefore continue focusing considerable efforts on improving price stability and on ensuring sound public finances, fully convinced that the policies for sustaining long-term growth, for reducing unemployment, and for strengthening convergence are mutually supportive. Exchange rate instability at the beginning of the year, due partly to the weakness of the U.S. dollar, affected member states unevenly, reflecting continuing structural problems, persistent fiscal imbalances, uncertain inflation prospects, and other uncertainties in some member states. Adopting strict measures to address macroeconomic imbalances, in particular in the field of public finance, has proved the only effective way of regaining market confidence and thus improving exchange rate stability.

Guidelines for the economic policies of the member states and of the Community recently endorsed by the European Council in Cannes, in continuation of the economic policy objectives hitherto pursued, aim in particular at turning the present recovery into strong, sustainable noninflationary growth in order to reduce unemployment and budget deficits. Moreover, they underscore the commitment to price stability and stress the need for a number of member states to increase their efforts to meet the guidelines for reducing inflation to between 2 percent and 3 percent or less. However, to be effective, efforts by the monetary authorities need to be accompanied by substantial improvements in fiscal performance in most European Union countries. The guidelines urge that budget deficits be brought to below 3 percent of GDP as soon as possible, as a first step towards the sound medium-term goal of close to balance. In this context budget consolidation, in particular the reduction of structural deficits, is seen as an essential condition for sustained and balanced economic and employment growth. Further, the broad guidelines signal the need for member states to reinforce structural policies and to keep the increase of real wages below the increase of productivity in order to achieve stronger employment growth and to reduce unemployment.

The excessive deficit procedure conducted this year has provided a measure of the results achieved so far. Although this year an improvement in general government deficits is expected, with twelve member states making some progress, nonetheless public deficits are still much too high and debt ratios are expected to increase in most European Union countries. The persistence of fiscal imbalances could undermine the credibility of policies; it is contributing to high-risk premiums on interest rates; and it will adversely affect economic growth and job creation in the medium term. Fiscal consolidation is the major task confronting the economic policies of a good number of member states. Indeed, most member states are committed to exploit any room to accelerate the process of budget consolidation.

A sound macroeconomic framework is one of the pillars necessary to support the reduction of unemployment—an important priority in the European Union. The Union has agreed—most recently in its broad guidelines and in the conclusions of the European Council in Cannes—that for growth and employment to be sustainable we also have to take into account inter alia the interrelationship between economic growth and the environment and the consequences this has for economic policy. The subject was also an important part agreed by the Group of Seven Halifax conclusions.

Several decisions were taken at the meeting of the European Council in Cannes with a view to reducing unemployment. One of these called on member states to present multiannual employment programs in the autumn of this year.

Packages of structural reforms emphasizing active policies should be at the forefront of such efforts. Also, measures will be aimed at the groups most affected by the unemployment problem, namely unskilled workers, young people, and the long-term unemployed. Reports on the implementation of these policies will be submitted to the European Council and the first of these will be presented in December 1995 in Madrid. Member states have already achieved some progress with respect to improving the functioning of goods and factor markets. According to the different situation in member states, each country will decide independently about the necessity, the design, and the implementation of additional reforms and labor market activities.

In the past year, the European Union has made significant progress in the preparatory work for economic and monetary union. The European Council in Cannes restated its firm resolve to prepare the transition to the single currency by January 1, 1999 at the latest, in accordance with the Maastricht Treaty.

As regards the preparatory work for the establishment of monetary union, the economic and finance ministers were asked by the European Council in Cannes to deliver to that Council's next meeting a report on a reference scenario for the introduction of the single currency. This report will be prepared in consultation with the European Monetary Institute and the Commission, and will be discussed by the European Council in Madrid. The definition of the reference scenario will help answer technical questions raised by the introduction of the single currency. It will seek to provide all economic agents with a transparent and practical scenario and thus promote a smooth transition to a single currency. In emphasizing the importance of these technical aspects, we must not forget the central importance of additional efforts of the member states to improve convergence performance as the precondition for the success of the monetary union.

The European Union will continue to provide support for the completion of the transformation process in Central and Eastern Europe, in order to promote growth and to assist the associated countries in the preaccession process. The White Paper on the preparation of the associated Central European countries for integration into the single market focuses on the adjustments needed to adapt to the situation in the Union. The Europe agreements and the refocusing of the Poland and Hungary Assistance for Economic Restructuring (PHARE) program toward medium-term objectives and infrastructure financing are designed to assist the path toward membership. At the political level, this action is being supplemented by the structured dialogue, which will allow for discussion of issues of common interest in a multilateral framework.

The international community, and Europe in particular, have a strong interest in the success of the transformation process in the countries of the former Soviet Union. The European Union attaches great importance to strengthening relations with these countries. It welcomes the reforms undertaken by them in close collaboration with the IMF and will continue its policy of supporting the reform process.

In other areas, the Union will endeavor to strengthen economic and political links. Special attention will also be devoted to the Mediterranean countries, with whom the Union seeks a new type of relationship. The Union looks forward to the Barcelona conference in November, aiming to intensify cooperation within the framework of close good-neighborly relations. The European Council in Cannes has established the financial framework for the commitments in both the Mediterranean region and Central and Eastern Europe.

The creation of a new financing mechanism for the Middle East and North Africa is being discussed, in accordance with the conclusions of last year's Casablanca summit. The European Union strongly supports the Middle East peace process and is actively engaged in considering proposals for new financing mechanisms which would help underpin the peace process and promote regional development.

The European Union will continue its support to poverty alleviation in the developing countries, especially in Africa. In 1995, the Union continued its special relations with African, Caribbean, and Pacific countries; these are linked to the Union by the Lomé Convention, which has been reviewed in order to make it more effective. Here too, the European Union has provided, and will continue to provide, support for the adjustment process conducted in these countries. In this framework, the European Council in Cannes decided to increase the global amount dedicated to this end (from ECU 12 billion to ECU 15 billion over a five-year period). The European Union has reinforced this commitment by replenishing at a high level the resources of the European Development Fund. With South Africa, the European Union is working towards a new agreement encompassing amongst others close political, economic, and financial cooperation, which will emphasize the new era which the relationship between the two parties has entered.

The European Union is paying increasing attention to the development and the strengthening of its relations with Latin America, in particular Chile and Mexico, and with the Southern Cone Common Market (MERCOSUR). Moreover, the Euro-Asiatic summit in the second half of 1996 may be expected to reinforce the Union's relations with Asia as well.

The European Union reiterates its firm support for the multilateral and binding liberalization of world trade, based on the principles of nondiscrimination and nonreciprocity, and for the recently created World Trade Organization (WTO). Its multilateral character and the nondiscrimination principle to which it is committed make the WTO the appropriate forum for sustaining the momentum of liberalization and for solving trade disputes.

The interim financial services arrangement reached last July is welcomed indeed, as it will promote multilateral liberalization of the greater part of all business in banking, securities, and insurance, which account for a significant part of world output. With a view to advancing and protecting global free trade, the necessary efforts must be made to negotiate improved, permanent commitments to liberalization on a full most-favored-nation basis in 1997. The European Union looks forward to the full participation of the United States in the multilateral process.

The IMF continues to serve as the central forum of international monetary cooperation and to contribute to sound economic and monetary management in member countries. High on the agenda for the IMF should be to continue strengthening its surveillance in order to prevent, or improve the chances for a better handling of, financial crises. In this connection, the member states of the European Union welcome the progress made by the Fund in establishing standards to guide members in the timely publication of key economic and financial information and urge all members to join in the efforts. They also strongly support the decision at our last Interim Committee to increase the IMF's focus on surveillance of capital flows and to expand its advice on capital liberalization, not least in order to make members more aware of the risks attached to overreliance on easily reversible capital flows. We welcome the discussion by the Fund Board of the value and possibilities of extending the IMF's jurisdiction, drawing on OECD expertise, to capital account transactions. Finally, the member states support the work on the establishment of an emergency financing mechanism in order to strengthen the IMF's ability to respond quickly with strong adjustment programs to exceptional balance of payments crises.

Following the request made by the Interim Committee this spring and by the Halifax summit, the Fund has continued reviewing the adequacy of the amount of financial resources at its disposal. The Eleventh Review of Quotas is in progress and the member states of the European Union welcome the fact that a majority of IMF members are in favor of an appropriate increase of quotas. Provisional views expressed in the Board suggest that many members have a certain preference that the distribution of the quota increase should be largely equiproportional and yet should be carefully balanced with the aim of keeping quotas roughly in line with the changing economic weight of countries. In this regard, the member states welcome the broad support that Board discussions have revealed for an ad hoc increase in quotas for a reduced number of countries with the largest deviations between actual and theoretical quota shares. Lastly, the member states note with satisfaction that a very broad majority of members is of the view that, in general, the quota formulae are working broadly as intended.

In parallel with the Eleventh Quota Review, an increase of the Fund's borrowed resources is also under consideration in order to ensure the financial capacity of the Fund when large and exceptional assistance is needed. Following the Interim Committee's request of this spring, the IMF Board of Directors had a first discussion on the role of borrowing and, in particular, the role of the General Arrangements to Borrow (GAB). The Group of Seven has asked the Group of Ten and other countries with the capacity to support the system to develop financing arrangements with the objective of doubling as soon as possible the amount currently available under the GAB to respond to financial emergencies.

We hope the seminar announced for March 1996 on the future of the SDR will make an important contribution to the broad review by the Fund of the role of the SDR in the international monetary system.

Regarding the extension of the enhanced structural adjustment facility (ESAF), the member states note the work done by the Executive Directors and request them to proceed with their examination of the options for continued financing and adaptation of the ESAF.

With the active support of its new President, Mr. Wolfensohn, the World Bank Group continues to reshape its activities in order to tailor them better to the primary goal of reducing poverty in the poorest countries of the world. A more focused and flexible client-oriented strategy, based on fruitful dialogue with the developing countries and on a more global approach of the World Bank Group as a whole, is reinforcing the key role of the Group in the overall development agenda. Regarding the multilateral development banks, it is important to study and make proposals which would facilitate a better focusing of their activities. The member states of the European Union therefore attach great importance to the work of the Development Committee's Task Force on Multilateral Development Banks and look forward to its recommendations at the next meeting of that Committee in the spring of 1996.

On multilateral debt issues, the member states welcome the efforts undertaken to review the adequacy of existing tools to help those poorest countries with substantial multilateral debt problems. In this context, a continuation of the ESAF would provide greater certainty of appropriate financing. On bilateral debt, we urge the full and constructive implementation of the Naples terms.

The member states also congratulate the World Bank on its flexibility towards the special and urgent needs in developing countries. Its support of measures dealing with the financial turbulence in some Latin American countries after the Mexican crisis, and its valuable work in the Middle East to sustain the peace process are notable examples of the leading role which this institution, in which we all have a stake, has to play in today's changing environment.

We, the member states, lend active support to the World Bank Group in its responsibilities. In this context, the prompt fulfillment of donors' commitments to IDA-10 as well as a significant replenishment of IDA resources to be agreed upon within the planned time schedule are of the utmost importance. The member states are strongly committed to ensuring a successful outcome from these negotiations. Moreover, we urge all donors to demonstrate the strongest possible commitment to fulfilling our common responsibilities as members of the Association. IDA's distinctive mandate to target the very poor and promote sustainable growth in countries needing concessional resources merits our wholehearted support.

The member states also welcome recent changes in the framework for discussions in the Development Committee. We are convinced that allowing more direct interaction among members will lead to effective and productive discussions and therefore improve the overall impact of agreements.

The problems of ensuring an efficient and equitable world monetary system and reducing the gap between the developed and less developed countries present a major challenge to the institutions and their members and will call for further flexibility and openness to change. We must continue to ensure that we can respond to the demands of a rapidly changing environment.

Let me conclude by expressing the great respect in which the fifteen members of the European Union hold the Bretton Woods institutions. They are the major points of reference for continuous economic policy dialogue and cooperation. In particular, given its unique nature and structure, we would like the Interim Committee to be strengthened even further as the central forum for discussions on global systemic economic problems and policies.

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I should now like to spend a few moments giving an overview of the economic situation of my own country, Spain, by briefly mentioning the problems it has had to face, the policies the Government is now pursuing to overcome them, and our prospects for the future.

As you may be aware, the Spanish economy went through a brief but very severe recession in 1992 and 1993, accompanied by a decline in output and especially by a major loss of jobs and a sharp increase in the unemployment rate. These factors contributed to a major public sector deficit, exacerbated by both an increase in expenditure and a drop in revenue.

Confronted with this difficult situation, the Government formulated and put into effect a medium-term economic policy program set out in July 1994 in its revised convergence program. There were two clear objectives: to pull the Spanish economy out of the recession into which it had fallen, and to return to rates of growth exceeding those of the other European economies; and to bring Spain’s inflation and interest rates into line with theirs. This was expected to result in significant generation of employment, which was and is the chief goal of the Government’s policy.

Spain’s convergence program focuses on three main areas of action: First, reduction of the public sector deficit. Second, a package of anti-inflation measures, among them autonomy for the Bank of Spain. Third, structural reforms to make the economy more flexible and competitive, the most important being reform of the labor market.

This set of policies has brought the economy out of crisis and placed it on a stable growth path. It has also brought it more closely in line with the other European economies, with a view to economic and monetary union with them as of January 1, 1999.

I am gratified to be able to tell you that since late 1993, the Spanish economy, like the other continental European economies, has begun a process of marked expansion, which by this third quarter of 1995 has led to GDP growth rates in excess of 3 percent. At the same time, the fiscal adjustment process has reduced the public sector deficit from its 1993 level of 7.3 percent of GDP to 5.9 percent, the figure with which we shall close 1995, and a projected 4.4 percent for 1996. The inflation rate, down to less than 4 percent, is projected to reach 3.5 percent by the end of 1996. And for the last twelve months, we have been creating a thousand jobs a day.

Despite its difficulties, I believe that Spain can be proud of the success attributable to the economic policy the Government has pursued with such determination. There is no denying the distance covered, or the fact that today we are closer to being among the first to embark on the third phase of the monetary union. I see no other alternative for Spain, and that, together with what we have achieved recently, highlights the importance of the 1996 budget, recently submitted to Parliament.

Given the imminent advent of the single European Union currency, and the impact and influence of the international financial markets on mid-sized economies like that of Spain, it is implausible that partisan political interests could endanger twelve months of growth, fiscal consolidation, and structural reform.

Although 1996 is an election year in Spain, the Government has presented a tough budget focused on cost cutting and deficit reduction, in keeping with the convergence program I have referred to, and which predicates the existence of a primary surplus as a necessary condition for an initial reduction of the public sector debt.

Those who because of short-term electoral considerations reject this budget, which is precisely the one Spain needs, threaten to undermine the effort made by Spanish society in recent years, delay our catching up with the rest of Europe, and disrupt the process of growth and employment generation. However, I am convinced that we shall be able to continue with our economic policy of the last few years, and extend the current expansion phase until the end of this decade.

The world economy is in the course of a major process of integration, evidence of which is to be seen, for instance, in the large-scale inclusion of developing and transition countries in international trade and financial flows. This creates new challenges, opens new vistas of growth, and, provided we adhere to the appropriate policies, I am certain we shall ultimately succeed in taking full advantage of them.

STATEMENT BY THE GOVERNOR OF THE BANK AND THE FUND FOR THE UNITED STATES

Robert E. Rubin

I am delighted to welcome you to Washington for this important event. It has been fifty years since the Bretton Woods institutions came into being. Then, as now, their mission was to advance a vision of economic cooperation—cooperation aimed at safeguarding financial stability and furthering economic health in all corners of the globe.

These imperatives are as pressing today, if not more so, as they were a half century ago, and the need for cooperation is in many ways even greater. We live in an ever-more global economy, one in which all nations' well-being and progress are increasingly intertwined, in which the smallest and the largest are integral parts of that global economy and profoundly affected by decisions and events outside their borders. We—the nations of the world—are all in this together. Whole regions have greatly improved economic conditions by embracing open markets and trade. From Wall Street and the world's other financial capitals to the cities of Asia, Eastern Europe, Latin America, and Africa, the unprecedented growth and internationalization of financial markets are fueling regional advances. Once-weak economies have come to the fore and become major trading partners for the long prosperous economies. Moreover, the growing importance of these newly successful economies calls for them to be given a greater voice in the stewardship of the financial system.

The growth enjoyed by some emerging economies should energize us all to fulfill the imperative that others not be left behind. In a truly global economy, it is all the more important for us to work together and further the prosperity of all. Last year, we agreed broadly on the need to adapt the international economic and financial architecture to meet new realities. We must work to continue making that vision a reality, and to continue reinvigorating these institutions to meet changing needs.

Economic Outlook

A healthy U.S. economy is very important to global growth prospects. If you look to underlying fundamentals, the U.S. economy is in better shape today than it has been for three decades, which would not have been the case without the powerful deficit reduction program put in place in 1993. More immediately, after a sluggish winter, we foresee steady, low-inflation growth through next year.

The government sector budget deficit-to-GDP ratio this year is less than half what it was three years ago. The United States now has the lowest deficit-to-GDP ratio in the Group of Seven. For the first time in nearly half a century, U.S. budget deficits have fallen for three consecutive years. And the improvement is largely structural.

Moreover, there is a broad political consensus in America to balance the budget over the medium term, though there is and will continue to be vigorous and contentious debate on priorities.

Opportunities and Risks

The emergence of a truly global economy has opened up enormous new prospects for all our countries. Nonetheless, as we saw this year, with these prospects come new risks and new problems. Mexico provided one of the clearest examples to date of the extent to which our nations' interests have become interlinked. Financial instability in one part of the world increasingly threatens others' prosperity.

Recognizing this change, the International Monetary Fund, the World Bank, and the Inter-American Development Bank, in conjunction with the United States, all rose to the challenge. Mexico is now back on track, though there is much that remains to be done. But the episode highlights the need for new measures to safeguard financial stability in the face of global change.

Safeguarding Financial Stability

At Halifax, the Group of Seven leaders agreed to advance a number of initiatives to accomplish that objective.

The first must be an increased emphasis on financial transparency and surveillance. More important than any international lending package is the need for full disclosure of financial information, so that public and private analysts can detect potential dangers and prevent crises before they occur. Disclosure, which is at the core of the American regulatory system for the securities markets, is a powerful, powerful preventative. The International Monetary Fund is now working on a comprehensive list of financial data and national accounting standards to which our nations should adhere. The standard must be rigorous, and there must be clear identification of which nations are adhering and which are not. Also, strengthened surveillance by the IMF itself must supplement market discipline.

Second, even with the best of preventive measures, liquidity crises of broad concern may occur. The international financial institutions worked well this year to contain Mexico's problems. But the increased size and speed of financial flows mean that resources required to address future crises may be much greater than anything now available.

Neither the United States nor any other country can be relied upon to function as a lender of last resort. Moreover, a host of countries can now afford to share responsibility for the health of the international economic and financial system, and therefore should play a greater role. That is why the Group of Seven and Group of Ten have agreed to seek the establishment of new arrangements to lend to the IMF in the event of an unusual and large call for funds for conditional lending, and to seek other donors to this facility.

Let me emphasize the word conditional. Our goal is to have the capacity to respond to problems faced by countries that agree to take strong actions to get at the root of their difficulties. Resources must not be used to put off required adjustment.

Third, the expansion of and changes in the financial markets, while greatly increasing capital for investment, have widened the numbers and types of creditors who hold a creditor interest when crises do arise. We should explore new ways for a country to work its way out of debt, which take into account these changes in the private capital markets. This is a difficult problem. Some have expressed concerns over moral hazard, though I think this should be solvable through stringent conditionality, and there are many other complex issues. Nonetheless, I do not think we should accept the assertion that the approaches of the past are the best we can do. I think it is very constructive that the Group of Ten has set up a group to study the issue.

Fourth, the greatly increased size and speed of the markets, the great increase in the origination and use of complex new instruments, as well as a number of episodes that we have seen in the public and private sectors, point up the need for greater attention to risk management and to up-to-date regulations. And these issues are now receiving attention. Nonetheless, I believe there is a need for more than ritual calls for cooperation, though I think cooperation is critical to avoid activity that simply seeks the locale with the weakest regulatory requirements.

We must provide at least the following:

- adequate systems of risk management in the private sector and in the public regulatory domain, while at the same time recognizing—contrary to the claims of some—that no risk management system, no matter how many armies of PhDs and traders have been involved in the engineering, can provide certainty;
- effective internal controls, and regulatory monitoring of those controls;
- enhanced capital and prudential standards;
- improved disclosure by market participants; and
- stronger safeguards in payments and settlement systems and exchanges.

Our aim must be to preserve the benefits that innovations offer, while minimizing dangers.

Sustainable Development and Reform

Whole new regions have achieved high rates of growth and greatly improved standards of living. This is a watershed in human affairs. Nonetheless, too many countries are not experiencing the benefits that the global economy offers.

The multilateral development banks continue to have an essential role to play in promoting reform and growth. Nonetheless, as capital markets become more important, many of the development banks' old roles are fading. The banks must focus on helping countries meet human, environmental, and other public needs that advance market-based development, through programs that private-market participants cannot undertake.

In these regards, let me make several points.

First, the banks must accelerate their own internal re-engineering. The fiscal and budgetary restraint that many of our governments face, and simple good management and effective use of resources, require the banks to have an ongoing focus on furthering efficiency and eliminating unnecessary bureaucracy. The turn to democracy in so many countries must be paralleled by greater transparency within the international financial institutions. And participation by affected communities and nongovernmental organizations should be increased as the best way to design development programs that truly serve the people they are intended to serve.

Second, because private finance has advanced, the banks should concentrate on programs where they are doing what the private sector cannot do. For example, resources should be shifted toward more innovative use of risk guarantees, conditional lending, and joint private sector-development bank operations, which can catalyze private sector activity.

Similarly, an increasing proportion of bank resources should be devoted to investments in human capital. A private investment bank can finance a new generating plant, or industry, or perhaps even a tollroad. But for the most part, only the public sector will invest in women's health, or primary education. These are the kinds of social investments that provide an enormous return for a society, and which show a strong correlation with economic expansion. Channeling development bank resources to these areas will provide high returns in more societies.

Finally, development can impose important costs that are not captured by traditional economic indices. Such costs—social dislocation, uprooted communities and villages, and environmental degradation—are every bit as real as the measurable jump in economic output that can result from a financial investment. Such costs must be taken into account, if development is to maximize human well-being, and be sustainable in the long run.

The multilateral development banks have made enormous strides toward placing sustainable development at the heart of all their lending decisions. Only a few months ago, my wife, Judy, and I had the opportunity to visit an IDA-supported watershed project at Udaipur, India. I saw first-hand how a carefully designed effort can enhance people's lives, by drawing on local planting skills, by teaching low-cost methods to prevent run-off and erosion, and by involving women and children. These are the kinds of efforts that make use of and preserve what is best in a community. They are the kinds of projects that make a real difference, for the better, in people's lives.

World Bank President Lew Preston was a pioneer in turning the World Bank in these directions, and he deserves our gratitude. I also applaud the strong start President Wolfensohn has made toward furthering this mission, and I am confident that great progress will be made under his leadership.

Continued progress will require continued support from the Bank's member countries. This Administration is fully devoted to meeting all of its commitments to the international financial institutions. While I cannot promise results, I can pledge our utmost effort. Moreover, I firmly believe that those who are resisting the need for the United States to meet its full commitments are gravely underestimating the importance to the United States of the work that these institutions do, in an increasingly interconnected world.

Conclusion

I would like to conclude where I started. The emergence of a global economy, and the unprecedented growth and integration of financial markets, have brought enormous new opportunities to all our countries and peoples, but also new risks. Moreover, the need to help the struggling economies and the billion people worldwide who live in poverty is unabated. The reality of the global economy is that all our countries' well-being, and all our peoples' aspirations, are increasingly intertwined. No nation can stand on the sidelines. The need for participation, for cooperation, and for leadership in strengthening the global economy is even greater than it was fifty years ago, when the Bretton Woods institutions were founded.

STATEMENT BY THE ALTERNATE GOVERNOR OF THE FUND FOR GERMANY

Theo Waigel

The Joint Annual Meetings of the World Bank and the International Monetary Fund present a good opportunity to discuss current issues of international economic, monetary, and development policy in a cooperative atmosphere in a global forum.

With the creation of the World Trade Organization (WTO) at the beginning of this year, the international community has also set up a global forum to deal with trade policy issues. After fifty years, this has brought to fruition one of the central aims of the Bretton Woods conference.

The IMF, the World Bank, and the WTO have to cooperate closely in a spirit of trust on the basis of their respective mandates. This is not only the responsibility of the management of each institution: member governments must also ensure a coordinated division of labor between the institutions and avoid duplication of tasks.

The early and unexpected death of Lewis Preston was a great and painful loss for the World Bank and for international development policy. President Preston made a decisive contribution toward focusing the Bank's activities more closely on its central tasks of countering poverty and improving the situation of the socially disadvantaged.

President Wolfensohn has taken on a difficult and challenging task. I am convinced that he will be able to meet the challenges. I wish him well in his endeavors.

The world economy has continued to expand in the current year. This should not be taken for granted. The developments in Mexico and the exchange rate movements at the beginning of the year initially made the prospects look less favorable.

However, the balance we can draw today is, all in all, a positive one. The newly gained stability in Central and South America is especially welcome. Private investors have regained confidence there, and the prospects for growth have improved.

Nonetheless, there is no reason to relax reform efforts. On the contrary, the events at the beginning of the year have clearly shown how swiftly today's closely linked international capital markets can "penalize" misdirected policy decisions. Thus it is important for the reforms introduced with great success over the past few years to be continued and—where necessary—strengthened.

I am very pleased to note the increasingly evident signs of stabilization in the reform economies. Noteworthy growth rates are already being achieved in many countries of Central and Eastern Europe and the former Soviet Union. Progress is greatest and most readily perceptible where market-oriented reforms have been swiftly and comprehensively put into place. The people have identified the newly created opportunities and are making use of them.

The IMF and the World Bank have made a decisive contribution to these successes. Both institutions have again proven themselves in this historical challenge. In many instances it was only through the technical assistance and help in mobilizing financial support from abroad, coupled with the deployment of own resources, that reforms were made possible; the reticence of international investors was overcome; and the process of transformation was established in a consistent and credible framework.

Economic progress can also be noticed in Africa. Here, however, light and shade lie close together. The financial aid of past decades has often failed to produce the desired effects. The reduction of poverty must remain a central objective. I expressly welcome the reform concept aimed at concentrating the activities of the World Bank and the regional development banks even closer in the fight against poverty. But even in the poorest countries it still holds true that there can be no sustainable improvement of living standards without structural reforms and a stable macroeconomic framework.

This also calls for continuing support by the international community. It is a duty from which no prosperous country, let alone the major industrial economies, may back away. The negotiations on the replenishment of the International Development Association (IDA) are a decisive test for the readiness of donor countries to fulfill their international obligations. The ongoing IDA negotiations will need to be concluded with a significant replenishment. I would welcome it if more of the newly industrialized countries, whose notable economic achievements command our respect, were to contribute to the IDA replenishment.

In Germany, we shall not be able to fully repeat the good economic results of last year. We expect growth to slow down to about 2½ percent. While we were somewhat more optimistic at the beginning of the year, the following vigorous deutsche mark appreciation and a rising trend in pay settlements have tended to restrain economic activity. However, the prospects for next year remain good. Economic growth will continue unabated. Stronger private consumption, propelled by tax cuts, will also play a role here.

Over the past few months, general conditions for further smooth and steady growth on a high level have further improved in Germany: the inflation rate has continued to decline and now stands at less than 2 percent, and interest rates have fallen appreciably.

A key precondition for this favorable development and the improved policy mix was considerable progress in the consolidation of public sector budgets in Germany. Five years after German reunification, we can draw a positive balance: the rise in fiscal deficits induced by unification has been corrected. In its *World Economic Outlook*, the IMF places Germany among the leaders of the major industrial economies in terms of budget consolidation.

We shall consistently keep to this consolidation course in the coming year as well, despite a continuing need for high transfer payments to the new *Länder*.

The principal aim of German fiscal policy remains to reverse the rise in the government spending ratio induced by unification. We intend to bring down the government spending ratio from the present level of 50½ percent to 46 percent of the gross domestic product by the year 2000. The resulting leeway for fiscal policy action will be divided equally and symmetrically between the reduction of the fiscal deficit and bringing down the tax burden.

A steady, stability-oriented consolidation policy is also the key requirement for stable exchange rate relations. This was again demonstrated with particular force by events on global financial and currency markets at the beginning of the year. The attention of international markets is now focused more than ever before on national economic and monetary policies. International investors now respond almost instantly to misdirected economic policy decisions. Policies have to take these new global circumstances into account.

Sudden and massive capital movements present new and major challenges to national economic policies. We cannot and do not wish to undo the liberalization of capital movements. It would be a major mistake to believe that we could evade the discipline of the markets by means of government intervention or by postponing unavoidable liberalization measures. Those who do not accept this risk welfare losses.

The globalization of markets requires additional transparency and credibility of economic policy. Greater transparency enhances market stability and reduces the target for speculators. Greater transparency implies first and foremost the up-to-date and comprehensive disclosure of key economic data. The IMF has formulated a number of recommendations on this. Putting them into effect in member countries will also constitute an important element of a successful early warning system.

Of course, crisis situations will not always be preventable. We therefore want to speed up procedures for the allocation of IMF credits. But this cannot, and should not, be seen merely as a question of additional funding.

The IMF must not become a financial “safety anchor” for all sorts of economic problems. Any risks principally have to be carried by market participants. A bailing out only increases the moral hazard effects. Only in the case of systemic risks for the global financial system may funds be committed. Crisis prevention must, however, be first priority.

I expressly welcome the ongoing quota review. The IMF quotas are not only its general source of funds but also a reflection of the solidarity of its members and of their commitment to the institution.

Over the past few months, the IMF and the World Bank have been in the limelight of international scrutiny. It should be emphasized here, and I quote the heads of state and government of the Group of Seven countries, that the IMF and the World Bank have worked well and successfully in the first fifty years of their existence.

It is now important that the institutions are made ready to meet the challenges ahead. Germany will play a constructive role in this.

Statement by the Governor of the Fund for Italy

Lamberto Dini

Global Policy Challenges and Opportunities

Despite some recent slowdown of growth in industrial countries, there is broad consensus that the prospects for the world economy remain favorable. Growth in the developing nations is proceeding at a rapid pace while inflationary pressures are generally diminishing. After encountering serious difficulties at the start, most of the transition economies of Eastern Europe are achieving remarkable results in terms of growth and inflation control. Good progress is also being made in Russia.

World trade is growing at a pace rarely seen in the recent past and the outlook remains good. The rapid ratification of the Uruguay Round and the launching of the World Trade Organization should help prevent the emergence of new protectionist pressures, thereby fostering the further development of trade and competition worldwide.

The international community's successful action in preventing the Mexican crisis from having disruptive effects and spilling over to other countries in the region has shown that collective responses to destabilizing capital flows can be effective when they are prompt and resolute as Minister Rubin has pointed out, and has further elaborated upon just a few minutes ago.

While the growth of economic activity in the industrial countries is slower than previously projected, there are still grounds for optimism. Last year's increase in long-term interest rates has been largely reversed in recent months, and the monetary easing in many countries, which reflects improvement in inflation expectations, should help investment and maintain the pace of real growth at levels compatible with low inflation and increased employment. There is room, in the meantime, to take advantage of favorable circumstances to accelerate the pace of fiscal consolidation. The gains in terms of credibility resulting from similar resolute action would undoubtedly strengthen the prospects for further noninflationary growth.

Markets' growing sensitivity to domestic and external imbalances has added a new dimension to the challenges confronting policymakers. While the discipline markets impose is a powerful incentive to implement sound macroeconomic policies, their overreaction to uncertainty or delayed policy actions may prevent the attainment of socially desirable goals, and even result in financial and real instability.

Structural unemployment, particularly in Europe, remains very high. This is unacceptable, not only from the standpoint of equity, but also of efficiency, owing to the high costs that unemployment entails in terms of foregone output. High structural unemployment makes everything more difficult in our societies: from social cohesion to fiscal balance and the maintenance of consumer confidence.

Labor-market rigidities are a factor behind the high level of unemployment as they reduce the ability of economies to respond to adverse shocks and to adjust to the pace of technical progress. Measures aimed at increasing labor-market flexibility are therefore crucial. Many industrial countries have taken steps in this direction, but more fundamental reforms are needed to address the roots of the problem.

The Situation in Italy

Italy's public finances have improved considerably, thanks both to favorable cyclical developments and to the structural measures that have reduced current budget expenditure, especially with regard to health and public pension systems. The adjustment process has built up considerable momentum. The Government has sought to achieve a careful but firm balance between financial discipline and social sustainability of budget deficit reduction, but there is no intention to relent in the effort to cut the budget deficit further to a minimum, consistent with the policy pursued by other industrial countries.

A better fiscal position is an important objective in itself, but it is not the final goal of policy. Ultimately, what counts is the contribution that smaller budget deficits and lower inflation can make to enable the private sector to generate growth and employment.

In recent months, Italy has improved its growth performance and, with it, its employment situation. But what has been achieved on the job creation front falls short of what is needed, and the picture remains uneven. Disparities in employment rates and disposable incomes between age groups and different regions of the country remain too large. Unemployment is far too high among the young and in the south.

This calls for a two-pronged approach: higher, noninflationary growth, and reform of the labor market to accommodate new entrants, especially the young, and to encourage private-sector investment in the south. Naturally, public investment in education, professional training, and infrastructure can help this process, and will be used to complement private investment.

The Developing Countries and Transition Economies

The best assistance that industrial countries can offer to developing nations and the economies in transition is an open and growing world economy: that is, an environment offering opportunities, the possibility to benefit from them, and the stability required by investors. Most of these conditions are present today and a large number of developing countries are taking good advantage of them. Their economic growth continues to be impressive in the aggregate and there are signs of its spreading to laggard regions such as Africa. Transition economies are also posting impressive progress, and in many instances output gains for the second and third year running.

Continued growth, however, is to a large extent to be generated internally. It requires good policies, a stable domestic environment, and an outward orientation and openness. Policies favoring capital accumulation are among the most important, for rapid growth requires high rates of investment and domestic saving. Achieving these conditions in Africa and Latin America is essential if the growth momentum that now exists is to be maintained. This is the responsibility of public policy.

Growth also requires good governance, both in the sense of honest and efficient administration and in that of public participation. There are no shortcuts that really work in the long run. Public confidence is a very hard commodity to obtain and to conserve, but it is essential to stability and to social and economic progress. This applies to all countries, without exception.

Lasting economic progress requires a proper division of roles between the public and the private sectors. The private sector is the creator of wealth. The public sector is the facilitator of economic progress and the guardian of its equity. Development of the private sector is a key ingredient of growth in both developing countries and transition economies. We are carefully monitoring the progress being made, since there is no alternative in emerging countries to a healthy, competitive, employment-creating private sector.

Both individually and collectively, our countries are striving to provide adequate resources for the assistance of needy countries and their pursuit of worthwhile goals. The replenishment of the European Development Fund is proof of this common commitment within the European Union. But public resources are scarce and face strongly competing calls at home and abroad.

Italy supports the International Development Association (IDA) and resource transfers to low-income countries that need them most and whose economies perform adequately. We will do our best to contribute to the Eleventh Replenishment of IDA, together with our partners in Europe, North America, and Asia. But expectations about the transfers that will be possible must be realistic and donors must be convinced that the allocation of these resources will be sound and fair. Our judgment on the allocation and utilization of earlier IDA resources will largely determine the extent of our participation in current and future mobilization efforts.

We wish President Wolfensohn well in this and other endeavors.

Statement by the Governor of the Bank for Indonesia

Mar'ie Muhammad

It is an honor to address the Fiftieth Annual Meetings of the World Bank and the International Monetary Fund, especially in this, Indonesia's fiftieth year of independence. This year is an important one for the Fund and the Bank. We all mourn the passing of the Bank's former president, Lewis Preston, who contributed so much to this institution. We will sorely miss him. I would, however, like to welcome the new president of the Bank, James Wolfensohn, who comes to us with an impressive record of accomplishments in a wide range of activities. We are confident that he will be successful in leading the Bank through the coming changes. I would also like to welcome Brunei Darussalam as a new member of the Bank and the Fund

The changes in the world economy demand that we rethink the role of the international institutions and reshape them to serve our future needs. This is essential if we are going to continue successfully in our efforts to combine growth, equity, and stability.

In 1994, real growth in Indonesia was 7.34 percent, and inflation was less than 10 percent. Our per capita income reached $919, placing us among the middle-income countries. Foreign investors have approved the results of our policies and performance. In 1994, the value of foreign investment approvals was nearly triple that of the previous year.

Indonesia is firmly committed to domestic and international policies that support rapid growth with equity and stability. It is also our firm commitment to fulfill all of our international financial obligations.

We recognize that our future lies in encouraging internationally competitive industries. President Soeharto stated in his Independence Day address, "This encouragement and support can no longer be in the form of protection." We are committed to relaxing our trade and investment barriers. As part of this effort, we have determined a schedule for reducing tariffs to very low levels in a series of carefully defined steps over the next eight years. Almost no tariff will exceed 10 percent in the year 2003.

Moreover, we are also convinced that working with other economies in our region will encourage freer flows of trade and investment on a global scale, as long as the regional groupings operate according to the global rules. As a result of these convictions, President Soeharto assumed a leadership position in Asia Pacific Economic Cooperation (APEC) that resulted in the member economies issuing the Bogor Declaration, which expresses members' joint commitment to the goal of free and open trade and investment in the Asia Pacific Region by 2010 for the industrial economies and by 2020 for the developing members. Recognizing that a smaller group of developing countries may be able to move still faster to dismantle barriers to trade, Indonesia has been a strong supporter of the ASEAN Free Trade Area (AFTA) as well.

We have every reason to believe that the recent outstanding performance of the Indonesian economy will be repeated next year. The forecasts for the world economy are still quite positive. Opportunities for exports from the developing countries are encouraging. And, efforts to move toward more open markets in countries with which we trade will soon provide new opportunities for us.

In spite of the cheery picture that I have painted, we and other developing countries face growing challenges to our ability to manage our economies and to maintain openness and stability. The globalization of financial markets has meant that we and other developing countries have been affected by events that only a few years ago would probably have had little impact on us. With daily foreign exchange transactions now running at some 70 times the volume of world trade, what happens on one side of the world causes turbulence in countries on the opposite side of the world. The volume of short-term money that now moves around the world threatens the ability of any single country, acting on its own, to maintain stability. Similarly, efforts on our part to use monetary policy to manage the economy are constrained by interest rates elsewhere, particularly in Europe and the United States. In sum, monetary policies can no longer be designed in isolation, and their power to encourage stability is being eroded.

Even fiscal policies are affected. The globalization of capital markets has meant that our government budgets and our foreign exchange positions are driven by exchange rates between currencies other than our own. The recent shifts in the yen-dollar rates, for example, have increased and then lowered our debt-service payments. The result of all this is that individual countries are bounced around by unstable world markets and have less and less control over their destinies. Only collective action, with the support of multilateral institutions, can deal with unstable international financial markets and exchange rates.

Of course, the multilateral organizations recognize the changes that are occurring in the world economy, and they have responded with some new initiatives. In this regard, we welcome particular actions, such as the Bank's institution of single currency loans, which enable borrowing countries to manage their exposure to exchange rates more effectively. In spite of progress on some fronts, however, overall change on the part of the multilateral organizations has been slow. We recognize that restructuring and reorienting any large organization is difficult. We are encouraged by the fact that, in the past, the Bank and the Fund have indeed adapted to a changing world. They have shifted from their original focus on war-damaged Europe and competitive devaluations to promoting rapid growth in the developing countries. And, with respect to this task, they have adapted to changing paradigms and goals in the field of development.

The current slow pace of change is, I believe, also partly due to a lack of consensus on the moves to be made. Outside groups have made numerous suggestions; these have included recommendations that emerged from the Halifax meeting of the Group of Seven, efforts on the part of the Non-Aligned Movement, and numerous studies and reports by various academic groups, think tanks, and nongovernmental organizations (NGOs). We believe that these efforts contain many valuable suggestions and urge the World Bank and the IMF to consider them very seriously and to respond with concrete plans for change.

The ultimate goal of reform is clear; the organizations must renew their significance and their contribution to growth, equity, and stability in a newly globalized world economy. The reformed institutions should not compete with private sector institutions. We do not need multilateral organizations to do what private institutions can do perfectly well.

It is indeed very heartening to learn of the initiative of Mr. Wolfensohn regarding the setting up of a separate fund for the purpose of multilateral debt reduction. Until recently, the very idea of multilateral debt reduction was considered, in some circles, as unnecessary and irrelevant. Even the existence of a multilateral debt problem was questioned.

As chairman of the Non-Aligned Movement, Indonesia wishes to draw the attention of this distinguished gathering to the fact that the debt burden and debt overhang of many developing countries, in particular the poorest countries, are far from being resolved. It is our belief that for the poorest developing countries repetitive rescheduling of debt diverts scarce administrative resources from addressing problems of economic development and poverty alleviation. What is required is not further debt rescheduling but a once-and-for-all debt settlement, through the meaningful reduction of all categories of debt. No major group of creditors should be excluded, meaning that it is illogical and ultimately counterproductive to exclude multilateral creditors.

For many poor countries, the servicing of multilateral debt has become the bulk of debt-service payments. At present, there is no possibility for debtor countries to reschedule, let alone reduce their multilateral debt. As a matter of fact, many poor, debt-distressed countries are able to service their multilateral debt because they do not service their bilateral debt fully. As a consequence, while they service their multilateral debt, at the same time they are forced to accumulate large and growing arrears on their bilateral debt. It also means that whatever bilateral assistance these countries receive is channeled to service their multilateral debt.

It has also been asserted that there is no way for the multilateral financial institutions to consider multilateral debt reduction because it will jeopardize their credit rating. This argument against multilateral debt reduction does not hold water. The multilateral financial institutions are not only financially strong, but their reputation in international markets depends on capital guarantees from their members, in particular the major industrial countries.

The major industrial countries have recognized the existence of a substantial multilateral debt problem and have asked the Bretton Woods institutions to find a solution to this problem. Allow me to quote the relevant part of the communiqué of the Group of Seven summit in Halifax, Canada, dated June 15–17, 1995: “We recognize that some of the poorest countries have substantial multilateral debt burdens. We will encourage the Bretton Woods institutions to develop a comprehensive approach to assist countries with multilateral debt problems through the flexible implementation of existing instruments and new mechanisms where necessary and better use of all existing World Bank and IMF resources and adoption of appropriate measures in the multilateral development banks to advance this objective.”

Thus, the Group of Seven, the Non-Aligned Movement, other members of the World Bank, the Fund, the NGOs, and the rest of the international community are emphasizing the urgency to arrive at effective solutions to the debt problems of the poorest countries, in particular their debt to multilateral institutions. We therefore applaud the initiative of Mr. Wolfensohn and urge all other institutions and member governments to give their full support to this endeavor.

Statement by the Alternate Governor of the Fund for the United Kingdom

Edward A.J. George

I am delighted to deliver the U.K. statement in the place of the Chancellor of the Exchequer.

Central Bank Governors are always conscious of the risks and uncertainties surrounding prospects for both the world economy and their own parish. Although there are short-term uncertainties facing us all, the medium-term prospects for the world economy look, at present, relatively benign. The Fund’s prediction is for continuing growth in the Group of Seven countries at around its long-term trend.

Inflation remains subdued. And the Fund expects Group of Seven inflation to remain around current levels. We must not lose sight of the long-term benefits of price stability. In the three meetings that I have attended as Governor, I have been struck by the contrast between the shared commitment to sound monetary and fiscal policies around the world now, and the somewhat eclectic approach to macroeconomic policy which often prevailed when I attended earlier in my career.

In the United Kingdom, while there are—as elsewhere—uncertainties in the short term, the economy is fundamentally sound. We share the view of the International Monetary Fund that the prospect for the United Kingdom over the next two years is for sustained growth with low inflation. Unemployment has fallen by nearly 700,000 since its peak, and our unemployment rate is below the European Union (EU) average. At the same time, inflation has fallen to its lowest rate in a generation; and although the increase in import prices over the past year may lead to some rise in the short term, the outlook further ahead remains encouraging. To achieve our inflation target of 2½ percent or less, we must nevertheless, of course, persist in sound monetary and fiscal policies.

Outside the Group of Seven, the emerging markets of East Asia continue to grow strongly. And the same is true of some Eastern European countries. Russia, too, faces brighter prospects. But parts of Latin America remain in the doldrums. Mexico, in particular, is going through a painful period of adjustment. We welcome the evidence that Mexico is now getting back on track. But the earlier large decline in Mexico's GDP provides us with a salutary reminder of the costs of financial and economic crises.

Avoiding Financial Crisis

Several lessons are now evident from this particular episode. I want to highlight five:

- first and foremost, that prevention is better than cure;
- second, that if crises do occur, the international community needs prearranged procedures to enable it to decide how to respond;
- but that third, in a world where private capital flows have become so large, we must not exaggerate what official financing can achieve—a crisis will force the adoption of sound policies so it is better to adopt them in advance;
- fourth, it is worth exploring whether there are more orderly ways of managing situations in which the servicing of sovereign debt is interrupted;
- and fifth, getting the benefit of liberalized capital flows means we need effective coordination of financial market supervision both within and especially between countries.

Prevention Better Than Cure

Integrated and liquid global capital markets mean that now, more than ever, prevention of crisis is better than cure. Sound economic policies, backed up by effective surveillance by international financial institutions and markets, are the key.

The United Kingdom has strongly supported efforts to improve the Fund's own surveillance procedures. That means a sharper focus on those countries of global significance, encompassing both industrial countries and emerging economies. It means franker and more candid assessments by Fund staff, management, and the Board. And it means devoting more attention to financial market developments, capital flows, and the maturity structure of debt.

Equally important, markets themselves must be able to reach informed and timely judgments about economic prospects. Group of Seven leaders at Halifax called on the IMF to establish benchmarks for the publication of key economic and financial data. I welcome the action taken by the Interim Committee toward implementing that call. In particular, setting a more rigorous standard for those countries that aspire to use international capital markets represents a significant step forward. It is crucial that the Fund identifies for the higher tier only those countries continuously meeting the higher standard.

Responding to Crises

But try as we might we are unlikely to succeed in preventing every crisis. We must then decide whether official international support is appropriate, and, if it is, have the capacity to act quickly.

As a step toward that objective, we are establishing an emergency financing mechanism, clarifying the procedures to be followed when the Fund is to lend rapidly, especially in large amounts, in exceptional circumstances.

We are also making important progress toward ensuring that the Fund will continue to have sufficient resources to help countries implement sound adjustment policies. There now seems to be a near consensus on the case for a quota increase, although much work remains to be done on determining its appropriate size, distribution, and timing.

And, in line with the request from the Halifax summit, we are looking at ways of expanding the General Arrangements to Borrow (GAB).

Importance of Sending the Right Signals to the Markets

In putting these arrangements in place, we must never give the world's capital markets the impression that the international financial authorities will ride to the rescue of every sovereign debtor in difficulties over debt service or foreign exchange. Creditors should not assume they will be bailed out. That is one very important reason why the use of the GAB has always been so tightly circumscribed. Moreover, we must now acknowledge that in today's capital markets, private sector flows have become much larger than the amounts available in the form of official finance.

The U.K. authorities attach great importance to the statement by Group of Seven leaders at Halifax that "there can be no presumption that multilateral financing will be provided in every instance of local or regional financial crisis." Because if markets think otherwise, it could lead to a serious distortion in the way they allocate global savings. Flows to a number of sovereign debtors would be too large, priced too cheaply, and continue for too long. Countries could be lulled into delaying the stabilization and adjustment policies needed to secure their medium-term economic health and stability. We would, in short, be creating significant moral hazard for both lenders and borrowers.

As far as the IMF is concerned, we must never lose sight of the fact that its primary purpose is to support countries that pursue sound policies. The Fund has not been tasked with the job of "bailing out" creditors. Nor is it, and nor can it become, a lender of last resort to the international financial community.

Orderly Sovereign Debt Workout Procedures

Limitation of moral hazard is also one reason for the work being conducted, under the aegis of both the IMF and the Group of Ten, on so-called "orderly workout" procedures. We are exploring whether there is a workable "middle way," between large-scale official financing and disorderly default, when a sovereign borrower becomes unable to meet its debt-service obligations in full.

In our view, it is important to be open with the markets about this work. If the exercise were to be conducted solely by officials behind closed doors, it could not only give rise to unfounded—but nevertheless destabilizing—rumors in the markets, but could also lead to proposals that fail to take account of market expertise.

The Importance of Financial Sector Reform and Strong Supervision

The final issue thrown into stark relief by the Mexican crisis is the degree of stress that tough adjustment policies can suddenly impose on a country's financial infrastructure. A recent Fund Board discussion rightly emphasized that liberalization of capital account transactions—an objective that the U.K. authorities strongly support—has to be accompanied by broad financial sector reform.

The combination of capital account liberalization and deregulation means that most financial organizations now handle instruments that straddle different markets and different countries. These developments make it imperative that financial supervisors work closely together across both national and industry frontiers.

It is against this background of increasing globalization in financial services that the Group of Seven leaders called for the Bank for International Settlements (BIS) and the International Organization of Securities Commissions (IOSCO) to report on how closer cooperation between regulators and supervisors could enhance the monitoring and containment of risk.

Conclusion

We face a challenging future as the world becomes more integrated. I am confident that our international financial institutions can respond, and as necessary change, in the face of changing demands.

In that connection, let me conclude by joining with others in congratulating Jim Wolfensohn. Jim has a very substantial task in front of him as he seeks to improve the Bank Group's effectiveness.

Some issues are already clear. For example:

- the need for much greater coordination and cooperation between the International Bank for Reconstruction and Development (IBRD), the International Finance Corporation (IFC), and the Multilateral Investment Guarantee Agency (MIGA) as they work to support development in the private sectors of emerging, transition, and developing countries;
- the need to press ahead to bring the Bank closer to its clients, for instance by transferring responsibilities to people in the field;
- and the need, along with the IMF and regional development banks, to find a comprehensive and lasting solution to the special problems faced by the severely indebted low-income countries that are following reform programs.

We very much look forward to working with Jim as he unveils his ideas on the way ahead.

STATEMENT BY THE GOVERNOR OF THE BANK FOR CHINA

Liu Zhongli

First of all, on behalf of the Chinese delegation and in my own name, I wish to express our warm congratulations to you on your assumption of the Chairmanship of the 1995 Annual Meetings. I believe that under your guidance, these meetings will be a great success.

Again, I would like to take this opportunity to congratulate Mr. Wolfensohn on his appointment as the ninth President of the World Bank. We hope that under his leadership, the World Bank will make new contributions to world development.

The Chinese Government is committed to development and focusing on economic construction, with a fundamental objective of improving the living standards of 1.2 billion people.

The year 1994 witnessed the deepening of reform and the continued encouraging progress of the Chinese economy. China's GNP grew by 11.8 percent over the previous year. In the first six months of this year, the economy went smoothly, resulting in 10.3 percent real GDP growth as compared with the same period of last year. Macroeconomic adjustment has been effective, investment structure has improved, and the inflation rate is slowing down to the targeted level.

During the period 1991 to 1995, China achieved the best economic performance ever since it was founded, fully reflecting the tremendous impact of the reform and opening-up program. The real average annual growth rate of GNP in this period was 11.7 percent, or 4 percentage points higher than the previous five-year period. The national economy developed in a more healthy and stable manner. As a result, China's economic strength has been enhanced and the people's living standards improved. Ever since the reform and opening-up program was launched, China has succeeded in achieving its objectives targeted for each phase of development. The Chinese people are proud of these well-deserved achievements.

But this is not to say that everything is rosy. We are fully aware that China is still a developing country, and tough economic and social problems remain to be resolved, such as the relatively weak agriculture sector, difficulties of some state-owned enterprises, and growth disparity between the coastal and inland provinces. There is an urgent need to further improve and deepen the reform programs in various areas. With full confidence, however, the Chinese people are able to address these issues and achieve a stable and sustainable development.

Our confidence is justified by the following: first, with the experience of reform and opening up over the past sixteen years, China has worked out an appropriate development approach, that is, to establish a socialist market economy in the context of the actual situation of the country; second, China enjoys political stability; third, since the founding of the People's Republic of China forty-six years ago, and since the starting of reform and the opening-up program in particular, China has built up a solid economic foundation; fourth, the relatively low starting level of the country's economy and the huge potential demand of its market, which is also open to the world, provides a lasting driving force for future development.

Reform and development of more than a decade have given an entirely new face to China's economy: it is now an open economy and has become an indispensable part of the world economy. While bringing benefits to the Chinese people, China's development has also created favorable opportunities for other countries.

China's fast-growing exports make it possible to increase imports, particularly of high technology and high value-added products, thereby creating high-income job opportunities for the industrial countries. And development in China has provided vast markets for foreign investors, attracting a steady flow of external capital into the country. The Chinese Government encourages investors who aim at long-term return to invest in priority economic sectors by improving the investment environment based on market-mechanism. We in China sincerely welcome foreign investors to share with us the opportunities made available as a result of our economic development.

Facts have always shown, and will continue to show, that a prosperous China will not only benefit the development of the world economy, but also represent a strong force for maintaining world peace and stability.

The World Bank, IMF, and other multilateral institutions have in various ways made positive contributions to China's reform and development in the past fifteen years. The successful cooperation between developing member countries, including China, and multilateral institutions has demonstrated sufficiently that these institutions can still make a great difference in the developing world.

Both as a shareholder and a major borrower of the World Bank, China is very much concerned with the future of the World Bank. It is our view that the role played by the institution over the past fifty years should be fully recognized and its limitations should be evaluated in a historical context. The World Bank should undertake reform to adapt to changing circumstances, enhance efficiency, listen more readily to its developing members, and more adequately meet the actual needs of its borrowers. Nevertheless, we believe that whatever approach the Bank adopts to reform itself, the institution's fundamental objective of promoting development in its member countries should remain unchanged. The United Nations system should maintain a division of labor with each member assuming its own responsibilities. The World Bank must adhere to its Articles of Agreement and continue to promote the transfer of resources to developing countries as its most fundamental objective.

Here and now, we want to express our deep concern over the IDA-10 Replenishment and the prospect of IDA-11. The experience in the past decade shows that, as a direct assistance to the poorest developing countries, IDA has played an irreplaceable role in carrying out the development functions on the part of the World Bank. We appreciate the active efforts the World Bank has been making for IDA. We call upon the major donors to take a positive attitude to ensure that IDA reach a satisfactory level of replenishment.

The International Monetary Fund has made positive contributions to the adjustment programs of developing countries and economies in transition.

We support a large increase of the IMF quotas in a timely fashion in order to provide adequate assistance to the financial needs of its member countries. In our opinion, the growth of developing countries should be fully reflected in the calculated, as well as actual, quotas of the IMF. In the past sixteen years, the economic growth rate in China has averaged 9 percent, which is much higher than the world average. China's foreign trade has also been expanding rapidly. However, since the Ninth General Review, the share of quotas of China has been on a continuous decline and the present level does not truly reflect its growing economic strength. We are seriously concerned with this anomaly, and hope that it can be duly addressed by the IMF as early as possible.

We have consistently held that the IMF should obtain its financial resources mainly through quota contributions from its member countries. With this prerequisite in mind, we support the recommendation to increase the total General Arrangements to Borrow (GAB) commitment and expand its scope. I wish to stress here that, given the cooperative nature of the IMF as an inter-governmental organization, decisions on GAB-related issues should be made within the framework of the IMF. By the same token, new members of the GAB must be on an equal footing with old members, and participants and non-participants alike must be treated equally for the use of GAB resources. We would also like to reiterate our position that the Fund should refrain from financing through channels other than official sources of members.

We support the provision by the IMF of concessional financial assistance to low-income developing countries through the enhanced structural adjustment facility (ESAF). Developed countries should fulfill their financial obligations towards the "Interim ESAF" so that the self-sustainable ESAF can start on time.

We continue to lend our support to the proposal of a general allocation of SDRs proposed by the Managing Director of the IMF. It is our hope that major industrial countries will reconsider their positions in the spirit of cooperation with a view to completing the SDR allocation at an early date.

The Chinese people pay close attention to the situation of the world economy while devoting themselves to the national development. The world economy in 1995 has been moving in a positive direction: many developing countries continue to maintain a high growth rate, most transitional economies begin to gain net growth, and the majority of developed countries have fully recovered from recession. Despite all these positive developments, the world economy is far from problem-free: the incidence of poverty is still prevalent in many developing countries; the exchange rates of major industrial countries remain volatile; trade protectionism persists; and severe uncertainties continue to exist in the external environment of developing countries. And the most worrisome is the continued decline of official development assistance (ODA). We call upon developed countries to keep in mind the common interests in the development of global economy, take into their full consideration the impact of their policies on developing countries, and fulfill their international obligations.

We, in China, are making immense efforts to develop our national economy. We are well aware that development is not just a task exclusively for China and for developing countries; it is a noble cause for the entire mankind.

Statement by the Governor of the Bank and the Fund for France

Jean Arthuis

The outlook for the world economy is good. Although growth forecasts in industrial countries have been revised downwards slightly since last year, they have improved in developing countries, in spite of the Mexican accident, as well as in the countries in transition. We must do our utmost to ensure that these broad-based prospects are further strengthened. The success of the fight against unemployment and in favor of sustainable development, which are in the forefront of our concerns, depends on it.

In this respect, the industrial countries have a major responsibility, which goes beyond the management of their domestic economies, as their internal or external imbalances have a detrimental global impact in view of the globalization of financial markets. France, for its part, has addressed the task of fiscal consolidation with determination so as to be ready for the transition to the single currency, a crucial step for Europe, but also because it is absolutely necessary to consolidate the current pattern of growth.

The reduction of major external imbalances of some countries is just as crucial because these imbalances disrupt the proper allocation of savings and are a permanent vector of monetary disorders.

Over the past year, we have both worked and acted together to enable the IMF to strengthen its central role in the surveillance of the world economy and to provide it with the resources necessary to discharge the new tasks with which we have entrusted it, as well as its traditional tasks which it does both competently and efficiently. I welcome the significant progress that has been made in this area and which was confirmed the day before yesterday by the Interim Committee.

Procedures have been put in place and financial resources are available but they must be further increased. The IMF must attain a size commensurate with the development of world trade and have resources appropriate to the requirements of its members and necessary for its own financial soundness. It is therefore important that we reach rapid agreement on a substantial and equitable increase in IMF quotas. To me, this is the number one priority because it affects the Fund's equity and therefore the solidity and financial credibility of the institution.

In accordance with the conclusions of the Halifax summit, the resources available under the General Arrangements to Borrow are to be doubled very soon with the involvement, I hope, of new contributors to the structure to be set up. These, however, are additional resources which can in no way be a substitute for an increase in quotas.

It is also necessary to explore solutions for an equitable distribution of SDRs between all IMF members. I very much hope that, if all involved are willing, we shall find a solution next year.

I turn now to a subject of major importance to my country: development aid. The international community is, as I see it, at a crossroads. There have never been so many encouraging signs, but at the same time there are very serious causes for concern.

In recent months, France has had good reason to strengthen its confidence in development assistance. It has been gratified to see the increasing capability of some developing countries to attract private financial flows. It has been impressed by the results obtained by countries that are introducing the necessary reforms of their economies with the involvement of the Bretton Woods institutions. I am thinking particularly of countries in Africa, many of which, since the beginning of 1994, have been implementing courageous policies with skill and determination which have resulted in very satisfactory rates of economic growth.

These results are an incentive to continue international development aid. I can assure you that France remains as determined as ever to participate in this international effort. It will focus more than ever on increasing the effectiveness of that aid. The conclusions that we can draw from recent success stories and the work we have done here together over the past few days show that we can still do more with the resources available. I think that it is particularly important to concentrate aid on the poorest countries which do not have access to private flows and which are pursuing effective economic and social development policies.

At the same time, France realizes the countries that are pursuing these development policies remain for the time being dependent on international solidarity for their financial viability. France would wish to see the international community respond. And yet, in this area, I must record my concern that the major negotiations currently under way are being overly influenced by pessimism and the temptation of isolationism.

There is certainly some reason to be satisfied, however. My country warmly welcomes the agreement that has been reached to make the enhanced structural adjustment facility permanent. But I remain concerned about the negotiations on International Development Association (IDA) replenishment.

The recent success stories that I have just referred to are evidence that IDA can be proud of its record and yet we are encountering real difficulties in maintaining its resources at an adequate level. IDA is the cornerstone of our common action in favor of development, enabling the financing of the most difficult and the most costly reforms. Without it, the impact of international aid, and in particular that of the World Bank Group, would be seriously diminished.

For France, a significant replenishment of IDA is an absolute and urgent priority. It calls upon the other donors and lenders, and in particular the leading one, not to turn back but to continue their joint efforts to finding an equitable way of maintaining what remains the main source of long-term finance for the poorest countries and their development.

Once IDA has been sufficiently replenished, we can introduce innovations or improvements to the existing instruments. We all know that there is no lack of ideas in this respect. We must mobilize all the available instruments to implement a strategy of stable financing for the development of the poorest countries.

In this respect, I can assure you that a country like France which has not hesitated to forgive $11 billion worth of debt of its poorest partners will come up with new ideas. But we must not reverse the order of priorities: the funding must be secured first for without it the ideas will be little more than posturing.

The world has taken major steps over the last few months and in the right direction. It is our duty to accompany and support these developments. They must be a source of hope and confidence for the peoples of the world.

Statement by the Governor of the Bank for Sweden

Göran Persson

I am honored to speak on behalf of the Nordic countries—Denmark, Finland, Iceland, Norway—and my own country, Sweden. Let me start by welcoming the new President of the Bank.

Overall Economic Prospects

Many developing countries have continued to improve their performance through macroeconomic stabilization and restructuring of their economies. Today, developing countries are expected to grow by more than 5 percent a year during 1995–97. This bright outlook, however, masks wide differences across regions and countries, and not least within countries.

The main problem is that progress continues to be uneven, bypassing hundreds of millions of the world's poorest. Helping the poor to realize their potential presupposes redistribution of resources. Real progress in addressing poverty can only be achieved by a balanced and just social and economic development, allowing the expected economic growth to benefit all.

I note with satisfaction the rebound of private capital flows to rapidly growing economies and medium-income developing countries. This shows that macroeconomic stabilization with the emphasis on fiscal consolidation and structural reforms pays off. Improved access to private investment in some faster developing regions should be used to make room for a larger share of official development assistance (ODA) and further debt relief to the poorest and most indebted countries.

But supportive measures should above all include improved access to industrial countries' markets. In that regard, a multilateral and rule-based trade regime is important for both developing countries and countries in transition. The Bank's catalytic ability to mobilize resources, both private and concessional, will continue to be important for all developing countries. In order to strengthen its impact, the Bank should also take steps to further develop its financial menu offered to borrowing member countries.

The Social Aspects of Adjustment

Experience has shown that sound policy reforms do produce economic growth. But in many cases the opportunity to reduce poverty has not been seized and income inequalities remain high or even growing. This gives cause for deep concern. The Bank must be prepared to engage in serious discussions on the sensitive issue of reducing income inequalities.

Substantial attention must also be devoted to the social consequences of adjustment and transition. Far too often, it is the poorest who have suffered the most from public expenditure cuts. Adjustment programs should contain measures to protect the interests of the poor and improve their income opportunities during the transitional period. Thereby, they will also be in a better position to participate in and benefit from economic growth when it resumes.

Urgent priority needs to be given to human resources and skills development. Education is perhaps the most fundamental factor for combating poverty. Focusing on women and girls is especially important since their large potential is often untapped, due to the many constraints they face.

The Bank's policy conditions must be viewed as necessary and sustainable by the government concerned. Without ownership, adjustment will not work. Only by actively involving all parties in the process can the impact of policy change be sustainable. The greatest challenge for the Bank lies perhaps at the local level where achievement of true partnership is needed the most.

Developments in the Transition Countries

Output performance of the transition countries that advanced early and rapidly on the road toward stabilization and structural reform are beginning to show positive rates. Where reform has been delayed, output decline has been extremely sharp. The prospects for many countries indicate a need for pressing ahead with the necessary adjustment. Yet progress remains slow, in particular in some republics of the former Soviet Union. The World Bank, with its systemic approach to reform, is the key institution in this area. Sustaining output recovery will require renewed efforts to address the structural issues. It is important that the Bank gives high priority to this central task, for example by assisting transition countries with enterprise restructuring and financial sector reform.

The transformation from a centrally planned system to a market economy implies far-reaching enterprise restructuring, which in turn depends on the existence of functioning financial institutions. Recent turbulence in the financial sector of several transition countries illustrates the need for fundamental changes. Together with donors, the World Bank should support financial sector operations in these economies, aimed at strengthening their payment systems and developing a sound institutional framework.

The process of transition also involves an integration into the international economy. In this regard, the Bank has an important role to play, not least in post-conflict countries. In such countries, the Bank, together with other international organizations, can promote vigorous reconstruction of economies destroyed or disrupted by war—the purpose of the Bank fifty years ago.

In post-conflict countries and societies where peace is still fragile, the Bank's analysis and advice need to bear this state of affairs in mind and apply an appropriate time frame. One of several such complex and important aspects when working together with other institutions to rebuild post-conflict societies, is to facilitate the gradual return of refugees to productive employment in their countries of origin.

Throughout history, it is well known that foreign direct investment effectively contributes to an integration into the international economy. It brings with it transfer of know-how, enhancement of market access, and expansion of international trade. It is the most valuable form of private external finance, yet many countries in transition still show a certain ambivalence toward foreign direct investment. A change of attitude is therefore needed if more countries are to benefit from these investments. Here too, the World Bank, through its active policy dialogue, can make an important contribution.

The Crisis in Multilateral Cooperation

The Nordic countries share the priorities of the International Development Association (IDA) and strongly believe IDA plays a pivotal role in reducing poverty. We view IDA as the primary multilateral channel for the promotion of sustainable development in the world's poorest countries. We are therefore deeply concerned about the drastic cutbacks that are threatening the IDA program.

The failure of the Bank's largest shareholder to honor its commitments to IDA would not only lead to a shortfall in resources, for the current IDA program, but also puts into question the long-term viability of IDA. This lack of resources cannot be compensated for by other member countries. For example, in my country, taxpayers are already now contributing almost four times as much to IDA as the American taxpayer.

In addition, and this is even more serious, the problem we are facing goes beyond IDA. The most basic pillar of the multilateral system is the mutual respect of common agreements. If the most important member of this system fails to honor its commitments and is unwilling to share the burden with the rest of the donor community, the whole system will start to crumble.

Therefore, I would like to take this opportunity, a few days before the next replenishment meeting, to urge the U.S. Congress not to take an unfortunate decision that might have negative repercussions on the entire multilateral system, and in the end affect the new democracies and the poorest people.

Statement by the Alternate Governor of the Bank and the Fund for Japan

Yasuo Matsushita

It is a great pleasure for me to give this address at the Fiftieth Annual Meetings of the World Bank Group and the International Monetary Fund.

Before making my policy remarks, I would like to extend a warm welcome to Brunei Darussalam, which has just joined both the Fund and the Bank. I must express our respect and gratitude to the President of the World Bank, Mr. Wolfensohn, and to the IMF Managing Director, Mr. Camdessus, as well as to the Executive Directors and staffs of these two institutions for the excellent work they always do.

Now allow me to take this opportunity to express our most heartfelt condolences over the passing of Mr. Preston, who served as an excellent leader and as the eighth president of the World Bank for four years. I also welcome our new president, Mr. Wolfensohn, and extend to him our best wishes. I believe that the expertise and influence Mr. Wolfensohn has acquired as a leading international investment banker and financier will be valuable assets for all of us.

State of the World Economy and Policy Coordination

Let me begin by reviewing the state of the world economy. After hitting bottom in 1991, the growth of the world economy as a whole has accelerated, while price levels generally have stabilized. Growth in the emerging economies of Asia and of other developing countries has undoubtedly been the main engine for this. Also, with economies in transition generally on a path of recovery, the world economy now seems ready to draw on the peace dividend following the end of the cold war era.

For continued growth of the world economy, it is essential that our member countries work jointly on three policy priorities: sustained noninflationary growth of industrial economies; strengthened stability in the policies of emerging economies as well as in the economies in transition; and sustainable growth of developing countries.

While economies of the industrial countries are generally expanding, the pace of growth has slackened somewhat. Many industrial countries are burdened with high levels of structural unemployment and fiscal deficits, yet inflation remains at the lowest level since the early 1960s. In order to maintain momentum, industrial countries must carry out structural reforms while implementing policies to achieve sustained noninflationary growth.

Above all, fiscal consolidation should be, I believe, the main policy priority for all industrial countries. Continued large fiscal deficits will undermine the flexibility of fiscal policy, and only add to the burden of future generations, thus serving as a major obstacle to the development of the world economy. The fiscal situation in Japan, in particular, has noticeably deteriorated. Japan must, therefore, actively pursue fiscal consolidation.

Stabilizing exchange rates is also an urgent priority for the entire world economy. It is thus imperative for industrial countries to strengthen their efforts in reducing internal and external imbalances and to continue to cooperate closely in exchange markets, so that exchange rates will reflect underlying economic conditions of each economy. With this avowed intent, the Group of Seven finance ministers and central bank governors stated on October 7 that they had welcomed the orderly reversal in the movement of the major currencies that began following their April meeting and that they would welcome a continuation of these trends consistent with underlying economic fundamentals. We firmly intend to maintain close cooperation with relevant countries in exchange markets.

I now turn to the Japanese economy, whose pace of recovery appears gradual. Recently, however, we have seen some positive signs, such as a move toward the orderly reversal of the exchange rate of the yen and a rise in the stock market. On September 8, the Bank of Japan cut the official discount rate to 0.5 percent, the lowest rate ever, and on September 20 the Government of Japan announced a package of economic measures worth a total of over ¥14 trillion, the largest ever in terms of working expenditures. These policy measures are expected to steer the Japanese economy onto a steady recovery path, by restoring market confidence, and to contribute to the sustained growth of the world economy as a whole.

I am fully aware that the stability of Japan's financial system is a subject of growing interest to the world in the context of deepened integration of the world's financial markets. Japanese financial institutions are steadily addressing the problem of nonperforming loans, and the Japanese authorities are determined to take appropriate actions to make our financial system more stable. The authorities have responded swiftly to cases of some failed financial institutions on the basic principle of protecting depositors. We are further deliberating on an amendment to the deposit insurance system, and also on public intervention in this issue including the temporary use of public funds, while respecting the principle that such an issue should be addressed within the financial system as much as possible.

For the Stability of Emerging Economies and of Economies in Transition

The dramatically expanding flows of capital in private sectors and the emergence of new financial products have contributed, I am sure, to the growth of the world economy, by rapidly expanding the international capital markets and furthering integration. However, the expansion and integration of the financial markets has created new risks in which a financial crisis in one market can have an immediate and contagious effect on other markets.

To date, the International Monetary Fund has played a pivotal role in the international monetary system. I hope and trust that the Fund will also play a leading role in coping with this new risk.

To cope with a liquidity crisis with systemic risks, prevention is the best course of action. For that, it is essential that each member country pursue a sound fiscal and monetary policy of its own. When appropriate, however, it is expected that the Fund, while making the most of its hard-won mutual trust with members, will use its influence to promote policy discipline with its members at an early stage through enhanced surveillance, including data provision to the Fund and standards to guide members in the publication of data, as well as via an improved early warning system of national economic policies and financial market developments.

Should such a crisis occur, it is essential that the Fund play a central role in coordinating concerted action by the whole international community. And, in this sense, the exceptionally swift and bold action taken by the Fund and its members in response to a series of developments in the emerging economies last January should be taken as an example of our firm commitment and determination to contain crises.

To allow us to remain fully prepared for possible future crises, we should establish the emergency financing mechanism and develop new financing arrangements in a flexible manner with the aim of doubling the resources currently available under the General Arrangements to Borrow (GAB), taking into account the intentions of potential participants.

The new financing arrangements alone, however, will not allow us to maintain the resources of the Fund at required levels, when we consider the diverse roles of the Fund, such as support for strengthening stability of economies in transition and of emerging economies. Economies in transition, in particular, deserve continued support for their efforts to privatize public sector corporations and to implement structural adjustments, regardless of the improvement in the macroeconomic situation. Accordingly, candid discussions must be held among member countries to make the Fund's resources sufficient through the Eleventh General Review of Quotas.

Support for Developing Countries

I would now like to outline Japan's views on assistance to developing countries through multilateral development institutions.

First, I would like to express our views on development assistance strategy, focusing on the importance of respecting "uniqueness" and "diversity." The ultimate goal of development assistance strategy is, I believe, to ensure that the effects of current development endure, so that they will last through and benefit future generations. The problems facing developing countries and their needs for development are diverse, reflecting their stage of economic development and sociocultural conditions, which vary by region. Appropriate policies to increase and sustain the effects of development do, of course, vary, reflecting regional diversities. At the same time, the improvement of economic infrastructure remains essential to sustainable development in many parts of the world. And, in most developing countries, environmental considerations and the development of human resources are also among impending issues that need to be addressed.

In response to the uniqueness and diversity of each developing economy, the development assistance strategy of multilateral development institutions must, I believe, be equally diverse, because a static, unified approach simply will not work. In fact, development banks in each region have long tailored their missions, policies, and methods of doing business to the uniqueness and diversity of their particular region. The World Bank and development banks in each region should further develop strategies focusing on the uniqueness of each region through the active exchange of experience and ideas, while enhancing cooperation as a whole. That will be the most appropriate way, I believe, to ensure that development assistance has maximum impact.

Second, I would like to emphasize the importance of the exchange of ideas and experience. Both industrial and developing countries, as well as the development finance institutions, have continued to acquire extensive development experience. It will be extremely meaningful for us to share this experience and promote intellectual exchange in such a way that this wealth of experience can be fully drawn upon. Particularly fruitful is the sharing of experience among developing countries. To further promote such an exchange, I would like to announce that, in addition to the current working-level meetings of related officials, Japan will offer further opportunities for the exchange of ideas and experience in which experts from the private sector, as well as from academia, can participate.

Third, I would like to make some remarks on the immediate priorities related to development assistance. Many developing countries still suffer from extreme poverty. The need for concessional assistance thus remains enormous. This means that the international community as a whole should continue to support the activities of the multilateral development institutions. With regard to the ongoing negotiations for the Eleventh Replenishment of the International Development Association, all countries must make their utmost efforts so that appropriate agreements can be reached. It is also important for us to reach an early agreement on the Seventh Replenishment of the African Development Fund and, last but not least, to begin our work on the Sixth Replenishment of the Asian Development Fund.

In the process of the negotiations mentioned above, we should hold talks to identify what policy changes are necessary to ensure the maximum effect of the efforts by multilateral development institutions. I am grateful to the members of the Development Committee's Task Force for their yearlong effort, and I sincerely hope that the points I have made today will be reflected in their future discussions.

With regard to the issue of the poorest countries facing a heavy debt-service burden, I believe the basic approach should be to study the specific conditions of each country and then to address the issues on a case-by-case basis while making the best use of existing frameworks, respecting the confidence and financial integrity which the international financial institutions have won in the past.

Conclusion

For sound development of the world economy, each member must continue to address its own priorities. For its part, Japan is determined to do its best in dealing with its priorities.

One of Japan's priorities is to steadily implement the latest package of economic measures in order to ensure the recovery of the Japanese economy, thus contributing to continuous growth of the world economy.

Another priority for Japan is to take a continuously active part in Asia Pacific Economic Cooperation (APEC), an open forum for regional cooperation for the economic growth of this diverse and dynamic region, recognizing that many of the Asian and Pacific economies are the centerpiece of world economic growth, and that promoting both steady economic growth of the region and trade and investment liberalization is indispensable to further growth of the world economy. As the host country for the APEC economic leaders meeting, to be held in Osaka next month, as well as for the APEC third finance ministers' meeting to be held in Kyoto next March, Japan will make the maximum effort to ensure the success of these two meetings.

Last, but not least important, under an international regime of cooperation led by the Bank and the Fund, Japan will also contribute, together with other member countries, to building a safety net to cope with potential risks in global financial markets. This is a new priority that requires global initiatives, and it is an urgent task indeed; it is crucial to preserve the stability of the world's financial markets, especially when their dramatic expansion and integration mean that the economic policy of one nation can have a greater impact than ever on other economies. All of us who are gathered here in Washington, D.C., on the fiftieth anniversary of the end of World War II must confirm that the challenges lying ahead will require our wisdom, courage, and commitment.

STATEMENT BY THE GOVERNOR OF THE BANK AND ALTERNATE GOVERNOR OF THE FUND FOR SWITZERLAND

Otto Stich

It is always a pleasure to announce one's departure at a point when everything seems to be running smoothly. Fortunately for me, this is the situation right now. Perspectives for the world economy are better than at any other time since the beginning of my term in office, in 1984. What do I base my optimism upon? Allow me to mention four points: first, the increasing adherence to stabilization-oriented policies in many industrial countries. Second, the consolidation of reform efforts in many developing countries. Third, the success of countries in transition, which is gathering momentum. And fourth, the determination to work together to find common solutions to economic and monetary policy issues.

On the first point: for the first time in a long time, in many industrial countries, a reasonable level of economic growth coexists with a moderate inflation rate. The determination of central banks to make price stability the overriding aim of their activity is an important factor behind this development. But governments have recognized that living beyond one's means does not pay off in the long run, and they are trying to reduce their budget deficits to a level that the economy can sustain.

Second, developing countries. I remember when I was a newly elected Finance Minister, I was confronted with the overindebtedness of important developing countries. Many debtors had a very hard time accepting the necessity of comprehensive reforms. And the creditors found it difficult to determine what the nature of the crisis was. For a long time, they believed that the whole thing just boiled down to a problem of liquidity and would take care of itself once the economy was back on course. Admittedly, the problem is still of primary importance to a number of countries today, and we must take up this issue. Nevertheless, for many countries who were in deep trouble at that time, particularly in Latin America, the situation has changed fundamentally. In Southeast Asia, an entire group of developing countries can look back on a decade of impressive growth rates. In another region, the Middle East, entirely new prospects are opening up as years of hostilities are coming to an end. Also, in Africa, many countries are beginning to reap the benefits of tough reform measures.

The third source of my optimistic outlook is the improvement in the situation of many countries in transition. Several of them have succeeded in stabilizing their economies and in establishing vital institutional and legal foundations. After years of recession, in many places the downward trend in economic growth is in the process of turning around.

Fourth, the determination to work together to find common responses to economic and monetary policy issues. At an early stage, the Bretton Woods institutions have been able to recognize new problems—whether they be the debt crisis, the structural problems of poorer members, or the transformation of national economies—as challenges for the world economy. Coordinated actions undertaken by the Bretton Woods institutions make it possible to use the extensive know-how and the financial resources of the individual institutions to respond to new questions in the best way possible. In this context, we would also encourage the institutions to play an appropriate role in the reconstruction efforts in Bosnia. To further enhance their credibility with members' governments and public opinion, the

IMF and the World Bank must ensure a high degree of transparency regarding their activities and the results achieved.

So much for the optimistic part of my speech. More optimism than that would not become me; after all, as a Finance Minister, I have had to become accustomed to always emphasizing the dark side of the economy. Let us therefore turn to this side.

A first concern: many industrial countries are unfortunately no longer capable of offering a job to all those who would like to work. Here we must do far more than we have up until now. I am disappointed when I think of how little progress we have made on this in recent years, in spite of a multitude of conferences and official declarations of intentions.

In the second place, we are still making excessive use of natural resources—whether they be raw materials that are to be found in the ground or clean air or forests—and this undermines our ability to achieve the economic growth we are striving for. In this area as well, we have produced a lot of paper and few results. I would wish that the Bretton Woods institutions assume a far more active role in promoting sustainable growth.

A last point: the globalization and liberalization of capital movements allow a more efficient allocation of savings and, thus, increase the growth potential of the global economy. However, in a context of increasingly integrated financial markets, unpredictable and large fluctuations can occur. Such fluctuations can normally be limited, especially if expectations of market participants can be stabilized by a strong economic policy in a medium-term framework. However, markets can overreact, in the short run, putting individual countries, in particular developing countries with emerging markets, under severe pressure. In such situations, it is important that countries avoid resorting to measures destructive of national or international prosperity.

Regarding the International Monetary Fund, developments are taking place in two areas which will considerably strengthen the basis upon which it will build in order to meet the challenges of the future. One of these consists of the efforts to improve the ability of the International Monetary Fund to perform one of its core tasks, namely the surveillance of economic policies. We are convinced that, precisely in an environment of increasingly integrated markets for goods, services, and capital, it will become yet more important that we succeed in convincing all member countries to commit themselves to orienting their economic policies toward stabilization. Only in this way can the positive effects of increasing integration be fully captured. Measures to improve the provision of data and public access to economic and financial data on member countries, as well as to deepen the dialogue between the Fund and its members, will constitute an important contribution to this end. An effective surveillance of economic policies also constitutes an important element that can help to reduce the likelihood and the consequences of future balance of payments crises.

The second area concerns the financial basis of the Fund. It is clear to us that the resources available to the Fund should keep pace with the growth of the world economy. We therefore support the endeavor to increase the Fund's main source of financing—the quotas of its members—in the context of the Eleventh General Review of Quotas. We are also convinced that, after having fully utilized the resources available under the enhanced structural adjustment facility in 1998, the Fund will need another option that will allow it to provide support to its poorer members in their reform efforts. In our view, it will be necessary to further supplement these resources, making use of the financing scheme of the existing facility, which has been shown to be a valid one. Simultaneously, however, the group of those benefiting from the facility should be carefully examined.

We are also convinced that in exceptional cases involving systemic risk, the Fund needs additional resources that can be made readily available. We therefore support increasing the resources available under the General Arrangements to Borrow through a supplementary, parallel agreement with a larger group of creditors.

I should not wish to fail, at this point, to mention Switzerland's great appreciation for the vision, the energy, and the professionalism with which Michel Camdessus and his staff have steered us through difficult and, in some ways, new waters. I would particularly like to thank the Fund for the technical and financial support that it has provided to the members of our constituency.

Regarding the World Bank, it is a matter of great importance to me to pay honor to the man who played such a vital role in shaping the destiny of the World Bank in recent years: Lewis Preston, who passed away last spring while still in office.

One could certainly not say of President Preston that he was all bluster and no action. On the contrary, he knew what needed to be done to help the disadvantaged, and he simply went about doing it, with no further ado. He was clear-sighted and he was determined. It was under his guidance that the social programs of the World Bank developed in what can truly be called a spectacular way. Today, the Bank is, by far, the most important international source of finance in the fields of health and education. We owe him our gratitude.

I would like to congratulate Mr. James Wolfensohn on his assuming the position of President of the World Bank and to assure him that he can count on Switzerland's support along the path toward the realization of his predecessor's vision of sustainable development.

Mr. Wolfensohn is not inheriting an easy task. The trust of our parliaments in the success of development cooperation, in particular in multilateral aid, must be won back. Also, important strategic and operational decisions have to be made. The World Bank must become customer oriented; increased delegation of decisions from the World Bank to its branches in the borrowing countries is inevitable. The Bank must make a greater point of setting priorities and defining its activity in a more precise way. This will enable the Bank to work more closely, and in a complementary way, with other actors in the development process. Private industry, bilateral development agencies, other multilateral development organizations, and relief organizations are among these actors.

This is all the more important because the danger exists—especially at a time of tight budget constraints—that the needs of the developing world will be neglected. This must not be. We cannot be indifferent toward the existing and growing social inequalities within and between countries. These inequalities have been a major factor behind migration, refugee flows, and wars.

In this context, we are concerned about the fact that the outlook for the eleventh extension of the International Development Association (IDA-11) is uncertain. Some industrial countries could fail to fulfill their international responsibilities in the area of burden-sharing and thus create a domino effect in the donor community. Other countries which have achieved a level of prosperity that would allow them to take part in burden-sharing, should become conscious of their new responsibilities toward poorer countries. The successful conclusion of the IDA-11 negotiations would constitute a clear testimony in support of international solidarity. It would also reward the poorest countries of the Bretton Woods institutions, which have persisted on the path of reform in spite of immense domestic economic and political difficulties. Switzerland will participate in the further financing of IDA in accordance with its commitments.

Apart from the IDA negotiations, the World Bank's agenda for the coming month holds another major issue: multilateral debt. Research done by the World Bank and the International Monetary Fund indicates that, for the group of poorest countries, debt and debt servicing has taken on unsustainable dimensions or could do so in the future. In some cases, debts toward multilateral institutions play a significant role.

I am glad to hear that the International Monetary Fund and the World Bank have begun to work closely to tackle this problem. We expect the Executive Boards of the Bretton Woods institutions and the delegates of IDA to elaborate proposals containing comprehensive and sustainable solutions to the problem.

I have enjoyed being able to participate in these institutions for so many years; while for a long time, only as an observer, in the end also as a full member. I am more convinced than ever of the importance of both of these organizations and I deeply hope that they will continue to tackle the problems of the future with the same determination that can be witnessed today. I would like to express my heartfelt gratitude to the management and the staff of both institutions for all the good work they have accomplished and wish the Bretton Woods institutions continuing success in carrying out their important mission.

Statement by the Governor of the Bank and the Fund for Australia

Ralph Willis

Let me first add to the comments that have been made by others about the sad loss of Lew Preston. Lew was a great force in the Bank. He steered the Bank through a difficult period and introduced a number of very positive changes.

Australia very much welcomes Jim Wolfensohn's appointment as President of the World Bank, not just because he was born and raised in Australia, but also because of the undoubted attributes he brings to the job. His highly successful private sector banking career, and the energy, commitment and enthusiasm he brings to the job, make him a most appropriate person to lead the Bank into the twenty-first century.

Already his reforming influence is apparent. The meeting of the Development Committee in a revised, less formal format, was certainly conducive to constructive discussion and a productive outcome.

The success of the Bank over the next decade will depend on whether it is able to sharpen its focus on its primary mandate of helping the world's poor.

Many countries in the world, particularly in Africa, have made little progress in reducing poverty, despite massive volumes of development assistance. Economic growth has either been nonexistent or insufficient to match population growth, and social indicators have been lagging. This lack of progress, together with the need for fiscal consolidation in most donor countries, is leading to pressures to reduce bilateral and multilateral aid flows.

These pressures are evident in the current discussions on the replenishment of the International Development Association (IDA), which is a vital facility for promoting economic development in the world's poorest countries. Australia strongly believes that all countries need to make good their commitments to previous IDA replenishments and help ensure that IDA-11 is a success.

For its part, Australia is prepared to consider positively a supplementary contribution to IDA-11, in addition to its calculated burden share, and hopes that some other donors will do likewise. At the same time, we need to ensure that we do not overburden the recipient countries with debts that they will not be able to repay. Projects financed by debt must produce sufficient returns to service that debt. Much more needs to be done to improve the quality of lending to ensure that projects meet this basic requirement.

Australia is a strong supporter of the application of Naples Terms in the Paris Club. For most of the heavily indebted poor countries, application of these terms will help reduce debt-servicing burdens to manageable levels. However, for a small group of countries with very high levels of debts to the international financial institutions, bilateral debt relief may not be sufficient. Australia recognizes that, for these countries, the burden of servicing multilateral debt is an impediment to meeting development objectives. We support further work being undertaken by the Bank, Fund, and other multilateral development banks to develop a coordinated framework to assist these countries.

Multilateral financial assistance needs to be used to the maximum benefit of the borrower.

A critical problem in many of the world's poorest countries is poor economic management. The Fund and Bank have an essential role in assisting member countries to improve their economic management.

There has been much criticism of the impact of structural adjustment programs introduced to correct economic imbalances and unsustainable policies. Certainly, macroeconomic and structural reforms do have transitional consequences, and therefore it is important that we develop measures to alleviate negative impacts on disadvantaged segments of society. But none of this undermines the basic premise that sound macroeconomic and structural policies are prerequisites for economic development. A major contribution that the Bank and the Fund can make is to encourage better economic policies in borrowing countries. That means rigorous conditionality and an emphasis on performance.

Within my own region, some of the South Pacific Island countries have been making heavy weather in economic development, despite substantial financial assistance. They suffer from special difficulties associated with their smallness, isolation, and extreme susceptibility to external shocks. Some are maintaining living standards only by rapid depletion of natural resources and destruction of the environment.

We need to look at what more we can do to make our assistance to these countries more effective, so that it delivers long-term gains and puts these countries on a sustainable development path. I would like to see the Bank and the Fund join with the Pacific Island countries and their development cooperation partners in a renewed effort to bring this about.

Of course, the importance of sound macroeconomic and structural policies applies to all countries—industrial, developing, and those in transition. For those countries where recent economic growth has been strongest, it is important that the hard-won gains against inflation be maintained. Together with a number of other countries, Australia tightened monetary policy early in a preemptive strike against inflation.

Although growth has now moderated to more sustainable levels, we still expect to achieve comparatively high growth. According to the IMF's *World Economic Outlook*, Australia's actual and expected growth in the period 1993–96 is almost double the average of all industrial countries. This strong economic growth has been accompanied by rapid employment growth, which has reduced Australia's unemployment rate by about 3 percentage points over the last two years.

Continuing world economic growth is essential to reduce unemployment, which remains too high in almost all industrialized countries. Fiscal policy needs to provide a sound medium-term basis for sustainable economic expansion. For those of us enjoying strong economic growth, it is important that we implement credible programs of fiscal consolidation. Australia has taken advantage of the pickup in economic activity, to return our budget to surplus, which in combination with reform of our private pension system is part of a deliberate strategy to boost national savings.

To foster growth, we need to continue to open our economies and remove impediments to the efficient operation of markets.

Australia is an enthusiastic participant in Asia Pacific Economic Cooperation (APEC), which promises to bring considerable benefits to the global economy as members progress toward free and open trade and investment. I would like to take this opportunity to thank staff of both the Fund and Bank for their work in support of the APEC finance ministers' processes. I also welcome Brunei Darussalam, a valued partner in APEC, to membership of the Fund and Bank.

The past year has demonstrated again how capital markets can—and will—react when they believe economic policies are unsustainable. The benefits associated with allowing business ready access to international capital markets are very important but they also carry additional risks. This will make it all the more important to maintain sound fiscal, monetary, and structural policies.

The Fund has a vital role in monitoring and assessing the economic policies of its members. There is a need to strengthen Fund surveillance. It is economic policies, not external financial assistance, that matter most. Making surveillance by the Fund more continuous and intensive for those countries whose policy action, or inaction, could impact on the system is one of the lessons of the Mexican crisis and should help to reduce the number of future events of that kind. But because surveillance will not always prevent crises, it is essential the Fund be adequately equipped to deal with emergencies when they arise.

The Mexican crisis is a reminder of the size and speed of the capital flows that can occur and therefore the magnitude of the resources required for effective intervention.

Quotas are at the heart of the operation of the IMF, and it is our firm belief that the IMF should remain a quota-based institution. Australia supports an increase in quotas, and we encourage the Executive Board of the Fund to expedite its further work on this issue. Australia also supports the proposals to double the General Arrangements to Borrow. We would be prepared to participate in a broader arrangement only on the basis that:

- all participants should have the same rights and responsibilities—there should be no second class citizens;
- contributions should be based on the relative economic standing of participants; and
- new participants should participate fully in the activation arrangements, and voting rights should be determined by the shares of commitments.

In conclusion, it is clear to us that both Bretton Woods institutions have an important role to play in the rapidly changing world economic environment. Australia, for its part, will do its best to continue to support both institutions in helping member countries to put in place policies aimed at achieving sustainable economic growth and higher standards of living.

STATEMENT BY THE GOVERNOR OF THE BANK AND THE FUND FOR KOREA

Jae-hyong Hong

It gives me great pleasure to have this opportunity, on behalf of the Korean Government, to address the Fiftieth Joint Annual Meetings of the World Bank and the International Monetary Fund. On this occasion, I would like to join the other Governors in extending a warm welcome to Brunei Darussalam.

Challenges Facing the World Economy

At the last two Annual Meetings, I brought to your attention the need to strengthen surveillance, the need to step up international support for environmental issues, and the need to increase efforts in supporting countries in transition.

Today, I would like to reemphasize our continued efforts in these areas and also address some of the new challenges facing the world economy.

The last decade has witnessed the increased integration and globalization of financial markets. Indeed, this has encouraged an efficient allocation of global savings and has promoted economic growth. But this has posed a new risk as well: the possibility of a financial crisis spillover has increased, and the speed at which it can spread has accelerated. The volatility of capital flows in and out of the developing countries has also increased.

Such developments require the Fund to take on some important new roles. Risks must be mitigated, while integration continues to be fostered.

In addition, the Fund must be aware that the rising uncertainty of exchange rate movements may hamper the sound economic growth of developing countries.

Policy Directions for the World Bank and the IMF

In the face of new challenges, the Bank and the Fund must be willing once again to adapt their roles and operations. Today, I would like to underscore some of the essentials for the effective management of those challenges.

Policy Directions for the IMF

First of all, I would like to highly commend the recent efforts of the Fund to strengthen its surveillance. And, to effectively prevent a crisis in the future, we support the Fund in the further adaptation and strengthening of its surveillance. In particular, we support the adoption of a standard format for the timely release of key economic indicators and financial market data of member countries.

Furthermore, I strongly urge the Fund to provide policy suggestions to improve the stability of capital flows into developing countries. In particular, capital flows must be balanced with a country's economic fundamentals. In addition, the Fund must strengthen the means by which it can manage any future financial crisis.

In this respect, the Fund's resources should be augmented to sufficient levels. To augment the resources, I believe that the Eleventh General Review of Quotas should be given the first priority. The Korean Government strongly supports an ad hoc increase of quotas for countries with a divergence between the actual and calculated quotas. It is important that the quota, as the basis for the rights and obligations of a member country, should keep pace with the relative economic position in the world economy.

Another essential element is for key currency countries to work closer in their macroeconomic policies with due awareness of the interests of the developing countries. The Fund, which represents the interests of all member countries, should participate in the process of such policy coordination.

Policy Directions for the World Bank

Recently, the level of official development assistance (ODA) has been decreasing, while poverty and the burden of debt service have been an increasing threat to the least developed countries. Therefore, I would like to welcome the Bank's efforts, led by its new president, to enhance the effectiveness of development assistance programs. It is our hope that the Bank will continue its efforts to increase multilateral cooperation to ease the burdens of the least developed countries. To this end, active participation should be encouraged in the Eleventh Replenishment of the International Development Association (IDA).

To promote active participation, I would like to propose that a special capital increase be given to those countries which significantly contribute to this replenishment. The Bank should also be a catalyst in mobilizing private capital for infrastructure and environment development projects in developing countries.

Korea's Role in the Bretton Woods Institutions

The Korean Government has been implementing broad deregulation, stimulating the private sector based on market principles while expediting financial liberalization and market opening. Under the auspices of these liberalization efforts, the Korean Government has actively participated in the World Trade Organization (WTO) financial service negotiations and contributed to their successful conclusion. And we will further accelerate the financial market opening policy. Next year, the issuance and listing of foreign stock in the domestic stock market will be allowed.

The issue of won-denominated bonds by the World Bank will also be allowed, following the successful issuance by the Asian Development Bank this year.

(Foreigners will also be allowed to establish branch offices of Security Advisory Companies or Securities Trust Management Companies by 1996. After that, joint ventures or subsidiaries will also be allowed.)

(With respect to direct foreign investment liberalization, all business sectors will be liberalized by 1997, except for those related to national security and public interest.)

With regard to economic cooperation with the developing countries, Korea will increase its official development assistance. As in past IDA exercises, Korea plans to actively participate in the forthcoming Eleventh Replenishment of IDA.

Moreover, the Government will further activate our ODA vehicle, the Economic Development Cooperation Fund, through substantial replenishment of up to $500 million next year.

Concluding Remarks

We are all facing an increasingly integrated world economy. Therefore, multilateral cooperation through the Bretton Woods institutions, as well as through the newly born WTO, has become essential for sustained and stable economic prosperity for all member countries. Through continued structural reform and market opening, the Korean Government will maintain its commitment to free trade and multilateralism in the spirit of economic cooperation.

Statement by the Governor of the Bank and the Fund for Ireland

Ruairi Quinn

Fifty Years On

This time last year, the Bretton Woods institutions were celebrating their fiftieth year. There was a mood of congratulations but there was also a considerable amount of introspection. Much of this introspection was encouraged by criticism of the institutions from the outside, but it is also fair to say that the institutions themselves were already responding to the need to keep pace with the changing environment in which they operated.

In this context, I would like to pay a special tribute to the late Mr. Lew Preston who, in his own quite unassuming but tellingly effective way, initiated this process in the Bank. I know that his successor as president, Mr. Jim Wolfensohn, is intent on maintaining, and even accelerating, the momentum of reform. In this, I can assure him of my wholehearted support as Governor for Ireland.

The International Setting

There is a need for rationalization which clearly defines the separate but complementary roles of the Bretton Woods institutions in the international scheme of things.

Equally, the problem of overlap between multilateral development banks, and between their activities and those of bilateral donors, and duplication of functions between organs of the same institution need to be tackled. In this context, I look forward to the final report of the Task Force on Multilateral Development Banks early next year and to the efforts of the World Bank Group to coordinate its own activities particularly in relation to promoting the private sector in developing and transitional countries.

International Development Association (IDA)

One of the defining issues for the international community is the degree of solidarity between the “haves” and the “have-nots” as reflected in the current negotiations on the replenishment of the funds of IDA. Hard decisions will have to be taken to cope with the prospect of a much reduced new replenishment. I hope that the result will not be an undermining of the global and multilateral nature of the facility nor lead to irretrievable cutbacks in its activities. I would urge all IDA members to make every effort to endow the IDA-11 with adequate resources and in a manner which shares the burden equally. This must now be our immediate priority.

Adequacy of Resources of the IMF

The question of the adequacy of resources, not only for IDA but also for the Fund, is very much on the agenda this year. I feel there is certainly a case for a substantial quota increase, structured so as to more accurately reflect the relative standing of members in the world economy.

An increase in resources under the General Arrangements to Borrow and the development of an emergency financing mechanism should increase the flexibility of the Fund's response to crises. I welcome the current discussion on the continuation of the enhanced structural adjustment facility (ESAF) in the context of assisting the poorer countries.

Debt

I am pleased to see that, in the course of the past year, there has been a growing acceptance that the burden of debt, including multilateral debt, may be a crippling constraint on the economic and social development of a number of very poor countries. I welcome the joint statement of the President of the World Bank and the Managing Director of the IMF to the Development Committee, and in particular their reference to the work in hand which is looking to ways to help pay part of the obligations owed to multilateral creditors for those countries where action by commercial and bilateral creditors is not sufficient to restore debt sustainability. An approach which focuses on country-specific analysis will help make the best use of such resources as are available for this purpose. I would urge the institutions to press ahead as quickly as feasible with this work, with a view to advancing the matter at the latest by the next meeting of the Development Committee in April 1996.

While I regret the premature publication of the contents of a draft paper prepared by Bank staff on the issue of multilateral debt, I am very sympathetic to the option discussed in that paper. Nevertheless, I would not wish the consideration of new mechanisms to prejudice the funding of IDA, which, as I said earlier, must remain our immediate priority.

Structural Adjustment

A sound macroeconomic framework is a prerequisite for sustainable development and, thus, for a lasting reduction in poverty. At the same time, there is the need to maintain social cohesion and emerging democratic structures, which can be put at risk where too deep or speedy an adjustment is attempted. We should therefore encourage countries embarking on an adjustment process to have regard to certain minimum conditions. Access to food and to basic facilities such as health and education should be ensured. I welcome the increasing emphasis which the IBRD and IDA are putting on these factors in adjustment loans and I would encourage them, as a matter of urgency, to generalize this practice while tailoring it to specific country conditions. I would also welcome progress in the area of publication in the interest of greater transparency in the development process.

Priorities for the Institutions

In concluding, I would like to express what I see as priorities for the institutions in the coming years. They should continue to refine their roles in global economic development and the maintenance of economic and financial stability. They should continue their consideration on how they can best cooperate with the other agents involved in this process: multilaterals, governments, the private sector, nongovernmental organizations (NGOs), and local communities. They should continually question their own relevance in an effort to increase it and they should continually seek to improve their own effectiveness, efficiency, and accountability.

Ireland is currently commemorating the 150th anniversary of a famine which led to the halving of our population and which still lives on vividly in folk memory. This sensitizes us to the need to take positive action to ensure that people's basic needs are catered for in the process of development.

In their development efforts the institutions should not lose sight of the fact that economic development is not an end in itself. The end is the well-being of the people they and we serve. In this spirit I look forward to a constructive Annual Meeting and to continuing progress over the coming year in the directions I have indicated.

STATEMENT BY THE GOVERNOR OF THE BANK FOR THE NETHERLANDS

Gerrit Zalm

I would like to use this opportunity to welcome Mr. Wolfensohn as the new President of the World Bank. He has already placed himself firmly at the helm, which I welcome, as important challenges are facing the World Bank, as well as the International Monetary Fund. Strong cooperation between both institutions is needed, particularly on topical issues such as multilateral debt.

International developments since our meeting last year have underscored the importance of permanent flexibility of the IMF and the World Bank. More effective instruments and procedures are being developed. Now, the continued availability of sufficient financial resources needs to be ensured. This calls for early progress on the Eleventh Quota Review and IDA-11 negotiations.

Financial crises are better prevented than cured. Thus, after the Mexico crisis, the IMF has rightly given priority to a strengthening of surveillance. Already, substantial progress has been made toward making surveillance more continuous, more critical and frank. A prerequisite for a frank policy dialogue is the provision of sufficient economic and financial data by the member states to the Fund, as well as the public at large. Statistical standards and publication guidelines will be useful. Furthermore, I welcome that the Fund itself is becoming increasingly open about its work, for example, through the publication of background documents and the rich content of its recent *Annual Report*. Through this increased openness the Fund will gain strength and credibility.

It would be an illusion to expect that strengthened surveillance can guarantee that new crisis situations will not occur in the future. In such cases the Fund should be enabled to respond quickly and in an orderly manner. The procedure set out in the emergency financing mechanism is therefore welcome. Its success will depend very much on the timely and continuous involvement of the Executive Board.

A doubling of the General Arrangements to Borrow (GAB) will further enhance the Fund's flexibility when faced with sudden and exceptional balance of payments crises. I would welcome an agreement between the Fund, present GAB participants, and prospective contributors on the modalities of a new parallel borrowing arrangement. However, a doubling of loanable funds is no substitute for a quota increase.

We feel that swift progress is needed on the Eleventh Quota Review. The IMF sees itself confronted with an increasing complexity of the global monetary system. The world economy and trade have grown considerably. Adequate resources to support strong adjustment programs are essential. Therefore, if we want to continue relying on the IMF, an early agreement on a substantial quota increase is absolutely needed. In our view a doubling of the quotas would be warranted. We call on member countries to participate in the discussion in the coming months in a pragmatic and constructive manner.

Turning to multilateral debt, the role of the international financial institutions in the debt strategy up to now has been to provide new concessional loans in support of development and adjustment programs. This strategy complements the efforts from the Paris Club and bilateral donors and has been essential both from a development and from a debt-alleviation perspective.

Nevertheless, I have noted with interest recent thinking on new approaches for a restoration of overall debt sustainability. I encourage the Fund and the Bank to work closely together and explore the options to deal with the multilateral debt burden of a number of the poorest countries, including the implications for mobilization of donor resources. This analysis should respect the different character of the Fund and the Bank, and in particular take account of the monetary character of the Fund.

Furthermore, the consequences of any new initiatives in this field for the IDA-11 replenishment merit serious consideration. In our view, a satisfactory IDA replenishment has priority at this stage. After all, the majority of poor countries are still primarily dependent on new concessional resources for their development. We should, therefore, be very careful that new initiatives do not complicate the already difficult climate for resource mobilization.

Turning to IDA itself and the current state of IDA-11 negotiations, the Netherlands is deeply concerned about the fact that the largest donor does not honor its obligations concluded under IDA-10. Inability to honor commitments endangers the multilateral framework which has served the world so well in the past fifty years. I sincerely hope that the United States will resume the constructive role it has played so often in the past.

It would be regrettable if IDA was denied the necessary financial resources, especially at a time when there is a broad consensus among donors on IDA's lending policies. This is not the time to abandon IDA and its recipient countries. Therefore, the Netherlands urges all donors to avoid a deadlock in the IDA-11 negotiations and provide IDA with the necessary means. However, the Netherlands is ready to support alternative approaches for IDA-11, should this be necessary. I hope other donors are in the position to do the same. The multilateral system needs all the support it can get.