DISCUSSION OF POLICY AT THIRD JOINT SESSION[1]

Statement by the Governor of the Bank for the Philippines

Roberto F. De Ocampo

The delegation from the Republic of the Philippines enthusiastically welcomes the admission to the Bretton Woods institutions of Brunei Darussalam. With the Sultanate's entry, all the member countries of the Association of Southeast Asian Nations will be represented in these organizations. The countries of this fastest growing regional market will be participating vigorously in the mainstream of global trade and development.

The delegation also congratulates the Hon. James D. Wolfensohn, the new President of the World Bank. Mr. Wolfensohn's remarkable background in the private sector will no doubt assure the World Bank of quality leadership as we enter a new century where markets, rather than governments, will be playing the decisive role in shaping societies.

Today we face a rapidly changing global environment, propelled by rapid developments in the area of information and telecommunications technologies. With a few taps on computer keyboards, billions of dollars may be instantaneously relocated by large financial organizations whose resources dwarf those of many small countries. Advances in these technologies have caused global market integration and interdependencies to proceed at a rate unimaginable only a few years ago.

Ours is a global technological environment where market forces—capital and labor—move with little regard for formal political boundaries. Increasingly, portfolio funds, rather than direct investments, dominate global capital flows. These funds are extremely sensitive to market returns. This reality commands that countries exercise greater coordination in macroeconomic policies. It is a reality that also requires augmentation of the resources available to multilateral institutions that play even more valuable roles in assuring the continued stability of the global financial system.

The new global reality that we must deal with underscores the need for closer surveillance of the performance of member countries. It requires a more profound appreciation of the principles of transparency and accountability that enlighten policymakers in each of the member countries of the

[1]October 11, 1995.

two institutions. In turn, more determined effort will have to be exercised in evolving decision-making processes in the twin institutions towards greater coherence with the new configurations characterizing the present world order.

While more intensive international market integration has introduced vast opportunities for the world's population, it has also created new vulnerabilities. Much of the vulnerabilities recently exhibited by the world financial system has been due to national policies that respond to domestic political pressures at the sacrifice of the stability of the entire global financial order. Through strengthened mechanisms for consultation and coordination, we should be able to reduce the significance of these vulnerabilities. But national governments as well must evolve a new level of sensitivity to the extent of interdependence of the world's economies—particularly the financial markets.

In the face of the new global realities, the Philippines supports moves to augment the resources of multilateral institutions. We likewise endorse the initiative to establish an emergency funding mechanism as a means to reinforce global financial stability and reduce the threat of external shocks on the emerging markets in particular. We expect, however, that the availability of an emergency funding mechanism will not diminish the prudence of economic managers.

The significance of international labor flows is a matter that will eventually require the attention of multilateral institutions involved in the formulation of financial and monetary policies that affect such flows. As labor shares in the more pronounced mobility of factors of production, multilateral institutions should be capable of reinforcing present initiatives to implement a universal standard of labor rights that pays due respect to the cultural distinctions present in every society.

In the interest of broadening the base of global economic growth, the Philippines supports the initiative to relieve the multilateral debt load of heavily indebted poor countries. We encourage these countries to continue adopting strong adjustment and reform policies even as multilateral support is undertaken to relieve their debt burdens. This will assure, as the Philippine case demonstrates, that the debt relief effort will translate into self-sustaining growth. The Philippines hopes that, with the sustained growth it is now experiencing, the country may eventually be able to more actively support alleviation of the poorer economies.

This is a critical period in the development of a highly integrated global economy. Lest we forget that development finance is as much about development as it is about finance, particularly in a year that has been fashionable to describe as one that began with the Mexico and Barings crises; let us also remember that it is a year that continues to see millions perishing from hunger, too many of our children suffering from malnutrition, and still comparatively more living in squalor rather than affluence.

This is not the moment for the more maturely developed economies to diminish the roles they play in assuring greater global equity, a more even development for mankind, and a world economic system that is characterized by stability. This is not the time to indulge in endless debates over what appears to some as self-evident. In this regard, the Philippines echoes President Wolfensohn's call for a new compact that will assure adequate funding for the IDA.

Assurance of adequate funding for the IDA is essential to realize the global consensus that places importance on poverty reduction as the major goal of sustainable development. In the Philippines, poverty reduction is the central goal of all economic development initiatives.

The Philippines has gone through the most difficult phases of adjustment and reform. The adjustments and reforms being undertaken share the perspective that the entire global community requires faster fiscal consolidation, reduction in unemployment, rapid structural reform, and the evolution of stable financial systems. These adjustments and reforms bring market disciplines to bear on domestic economic processes in order to hasten our transition towards coherence with the global economic mainstream. Many of the reform policies met with initial public resistance because of the short-term costs that they entailed. But with persistent public education in the framework of democratic governance, the reform policies have been increasingly accepted by our people.

The reforms and adjustments have now begun to bear fruit, strengthening the confidence of our people in the long-term benefits that the new policies will bring. We have learned from past experience that hesitation in the introduction of an economic reform package will cause the domestic economy to miss opportunities offered by a rapidly changing global environment.

Today, the Philippine economy has achieved a momentum of growth sustained by dramatic rises in investments and exports. Defying the unwarranted burdens imposed by a string of natural calamities, the relative volatility of the global financial environment, and a few external shocks, the Philippines has pushed ahead with its liberalization programs. With a more outward-looking, trade-oriented economy, the Philippines expects to keep pace with the rapid growth of its neighboring economies.

In the Philippines, we have ceased waiting for economic miracles, realizing that these simply do not exist. As more recent studies bear out, the so-called East Asian economic miracle is, at bottomline, the outcome of hard work in a market-friendly environment. In short, there simply is no quick fix.

The early successes that the reform process in the Philippines has begun to reap is a testament to the necessity for sound fiscal management. An important milestone has been achieved by our reform process with the attainment of a budgetary surplus last year. With a determination to keep prudence in command, we expect to produce a consolidated public sector surplus in due course.

We recognize as well that sustained growth can be achieved only on the basis of raising the efficiencies of the domestic market and providing for dramatic improvements in the savings rate. The Philippine Government will not relent in improving on these aspects, which are crucial to enhancing investments in our economy.

The Philippine experience at reform, within the framework of democratic governance and guided by the principle of enhancing social equity, will hopefully serve as encouragement to other countries who must, within the terms of a more optimistic global economy, pursue their own programs of adjustment and reform.

There is every reason to be confident that private sector-led growth in an environment hospitable to efficient business will deliver both equity and prosperity to developing countries. The lead engine of growth must be the private sector, the private sector, and the private sector. In the Philippines it is central to our aspirations for economic prosperity and the hallmark of our unshakable belief in democracy.

Statement by the Governor of the Bank for the Islamic Republic of Iran

Morteza Mohammad-Khan

In the Name of God

I wish to join other distinguished Governors in congratulating Mr. Wolfensohn for his appointment as the President of the World Bank. I should also like to express my condolences for the loss of Mr. Preston, the former President of the World Bank.

I note with pleasure the recent membership of Brunei Darussalam in the Bretton Woods institutions.

I wish to proceed by acknowledging the achievements made by the Bretton Woods institutions, while at the same time noting the great challenges that lie ahead for these institutions. The upward trend in economic and trade growth among the developed and developing world is encouraging. However, economic growth remains confined to particular regions and countries, and this imbalance is a cause of much concern. Growth imbalances in various regions, continuation of huge debt overhangs in low-income countries, instability in foreign exchange markets, and finally, unanticipated movements of capital during the past year have once again confirmed that the Bretton Woods institutions should further equip themselves with instruments and mechanisms designed to respond to such developments.

An even more important issue is the need to safeguard an apolitical status originally conceived for the Bretton Woods institutions. Many member countries still actively support this notion, which is incorporated into the founding charters of the two institutions. The World Bank should maintain its full independence and self-identity, as explicitly stipulated in its founding conventions, particularly in Section 10 of Article 4 of its Articles of Agreement. This concern was a central focus of the international consensus leading to its establishment.

Another important and related issue that causes concerns for the Islamic Republic of Iran, and many other member countries, is the selective and discriminatory treatment in extension of facilities to member countries which is inconsistent with the basic rules governing the operations of the International Monetary Fund and the World Bank. Such biases aggravate imbalances in economic growth among member countries.

We support recent efforts by the Fund in strengthening its surveillance role and capacity over foreign exchange and monetary developments. We believe that such functions need to be uniformly applied to developing and developed countries.

Global economic developments in recent years necessitate an increase in international liquidity and the resources of the Fund. In this connection, the general allocation of SDRs enjoys our full support.

We also support the Fund emergency mechanism designed to assist those member countries facing transitory adverse developments, as well as the foreign exchange stabilization fund intended to compensate for unanticipated fluctuations in exchange rates.

With respect to the role of the World Bank, I should note with pleasure the recent efforts towards promoting the role of the Development Committee. The Development Committee should assume a more active role in directing the Bank's policies in enhancing global development, poverty reduction, and more even growth. Assistance to poor countries, especially the sub-Saharan African countries, as well as those countries with reconstruction tasks following regional conflicts, should be the central focus for the World Bank. In achieving these objectives, strengthening the financial resources of the International Development Association (IDA) should be given special treatment. With regard to assistance to poorer developing countries, I would like to express my appreciation for World Bank and IMF efforts in alleviating the debt problems faced by these countries.

Among other issues deserving special attention is the role of women in development. Greater emphasis to the education of women is an effective step towards the development and improvement of living standards in low-income and poor countries.

I now wish to present an overview of economic conditions in my country. The economic policies adopted in the First Development Plan resulted in an average annual growth rate of 7.3 percent. The improvement in quality and distribution of growth is also noteworthy. Non-oil exports have increased considerably, we are close to achieving self-sufficiency in many agricultural commodities, and social indicators have improved markedly. The results of economic adjustment policies and investments made during the said period were revealed in the last year. Reduction of the external debt, a noticeable surplus in the current account of balance of payments, a balanced budget, more effective control over monetary aggregates, introduction of new financial instruments, and further privatization of public enterprises were among achievements realized in the past year. In the same year, the overall real GDP growth reached 3 percent, while the growth rate for the non-oil sector was 5 percent. The Second Five-Year Development Plan that was initiated in March 1995 places a very high priority on economic stabilization. Maintaining a balanced budget through sound fiscal policies, including improvements in tax organization and procedures, are among measures that are being strongly pursued. Monetary policy is accordingly formulated to confine credit expansion to lower inflation. Price stability, targeting of consumer subsidies, and provision of support for vulnerable groups are among the priorities of the economic stabilization program in the Second Five-Year Development Plan.

Structural adjustment policies are to be continued under the Second Five-Year Plan. Economic and financial liberalization, strengthening market mechanism, reinforcing a greater fiscal discipline, and finally privatization are among objectives being pursued. Obviously, an unfavorable external environment as well as the Government's emphasis on social justice and care for vulnerable segments of the population require that we proceed with greater subtlety in our economic programs. The Islamic Republic of Iran also continues to support and protect foreign investment in the context of private sector development under relevant laws and regulations.

Finally, I would like to emphasize that in the area of international economic and financial relations, the Islamic Republic of Iran is fully committed to meeting its external obligations. In this regard, I should point out that we had a sum of $6.4 billion current account surplus and a $3.3 billion balance of payments surplus last year. This trend is continuing according to the latest monthly figures, leading to further improvements in the external reserve position, which will ensure timely payments in the future.

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

Pedro Sampaio Malan

I am very honored to speak on behalf of Argentina, Bolivia, Chile, Colombia, Costa Rica, the Dominican Republic, Ecuador, El Salvador, Guatemala, Guyana, Haiti, Honduras, Mexico, Nicaragua, Panama, Paraguay, Peru, Spain, Suriname, Trinidad and Tobago, Uruguay, Venezuela, and my own country, Brazil.

The current *World Economic Outlook* presents an optimistic appraisal of the prospects of the world economy. Its assessment that global economic developments are largely as envisaged in the Madrid Declaration is encouraging. In the short and medium run, we are likely to have robust growth, due mainly to a high rate of expansion with subdued inflation in several Asian and some Latin American economies.

However, the *World Economic Outlook* acknowledges that, in the past 18 months, and I quote: “the world has been buffeted by a number of financial market developments that have demonstrated the macroeconomic consequences of the rapid adjustment of investors in response to perceived changes in risks. The timing and extent of shifts in market sentiment are often difficult to explain in terms of changes in economic fundamentals.”

While we all appreciate the benefits of international capital flows, their volatility can be an obstacle to the sustainability of global expansion and is a matter of great concern to Latin America—and we are not alone on that. As a result of its continuing integration into the world economy, Latin America has become more exposed and vulnerable to the instability of financial markets.

General positive results mask weaker performance in individual countries or regions. According to *The Economic Outlook for Latin America* recently published by the United Nations Economic Commission for Latin America and the Caribbean, and the *World Economic Outlook*, the region as a whole, albeit showing an average 25 percent annual rate of inflation—the best performance in the last twenty-five years—will probably grow only by 2 percent in 1995, a percentage much lower than the figure reached in 1994. This regional economic slowdown, which contributed significantly to a rise in unemployment, is to a very large extent a consequence of the financial turbulence derived from last December’s events.

In the first eight months of 1995, there was a considerable decrease in the inflow of foreign capital to Latin America, as well as a significant change in its composition. This year, the net inflow of capital is expected to be only one half the average reached from 1992 to 1994. Direct investments and official loans to improve the balance of payments of some Latin American countries have increased, while portfolio investments have decreased very much for the region as a whole, especially in the beginning of 1995. There has lately been some reversal in this trend.

The Halifax summit communiqué, among other things, acknowledged that, under present conditions and even with better surveillance, financial crises may not always be prevented. For this reason, the Group of Seven and the International Monetary Fund, according to the communiqué, must be prepared to take rapid action in a well-coordinated fashion to help a country to overcome the adverse consequences of such upheavals.

For this purpose, the Group of Seven proposed in Halifax that the Group of Ten and other countries with an important stake in the financial system should provide loans with a view to doubling as soon as possible the credit lines currently available to the IMF through the General Arrangements to Borrow. In this regard, the Interim Committee emphasized the importance that all participants should be treated equally, and agreed that expanded borrowing should not be a substitute for a quota increase.

Nevertheless, there seems to exist, from our point of view, the need for further international cooperation among all parties concerned so as to enable them to better handle the risks caused by the volatility of financial markets.

We would like, in this context, to share with you the following proposals aimed at strengthening and developing international mechanisms for consultation and coordination among governments, through a network of institutions and arrangements. They include both preventive and remedial measures, reserving for the IMF a central role in the process envisaged:

- To broaden cooperation among monetary authorities. What is needed is a more structured procedure—with larger participation—which would make it possible to anticipate problems through a better exchange of views and information. It would be a sort of preventive consultation mechanism conducted in a discreet manner. The Bank of International Settlements has started a process with the participation of some developing countries along these lines which should be encouraged;
- to enlarge the scope of coordination of macroeconomic policies among countries which may have a significant impact upon the international financial system. This could be done within the context of the IMF. Such an effort should lead to public disclosure by participating countries of the general policies they intend to pursue;
- taking into account such public expressions of intention, to improve international surveillance—which must become more symmetrical—over domestic macroeconomic policies. This would foster greater transparency and predictability in international financial markets;
- to expand existing facilities to stabilize currencies under temporary speculative attacks, not warranted by fundamentals. In this regard, the proposed increase in the credit lines available to the IMF under the General Arrangements to Borrow and the obtainment of contributions to this facility by new participants was viewed as a positive initiative. Furthermore, the Interim Committee's endorsement of the IMF Board's decision to establish an emergency financing mechanism and to pave the way for the creation of a currency stabilization fund were considered as steps in the right direction which deserve our full support;

- more basically, member countries should consider doubling IMF quotas, inter alia, to meet new demands resulting from the need to assist countries facing abrupt reversals of capital flows and speculative attacks against their currencies.

We also support a new and very substantial allocation of SDRs on the basis of the system enshrined in the present Articles. Moreover, we view with sympathy the transformation of the enhanced structural adjustment facility (ESAF) into a permanent financing facility of the poorest countries. Finally, we consider that the growing debt faced by many developing countries should be addressed in an effective manner. In this context, we welcome the steps taken by the World Bank and the IMF to study mechanisms to alleviate the burden of debt and to provide additional concessional resources to debtor countries.

The supply of savings worldwide is another issue of great importance for Latin America. The survey of world savings included in the IMF's *World Economic Outlook,* May 1995, was particularly welcome. It is still not clear whether the supply of savings will be, in the medium run, enough to finance, at acceptable interest rates, the potential demand for capital derived from the continuing growth of industrial countries, developing countries, and countries in transition. Excessive budget deficits in most industrial countries seem to be the root of the present savings slowdown, which can create problems for the world economy in the near future.

The establishment of the World Trade Organization (WTO) and the successful outcome of the Uruguay Round clearly reflect the existence of an international cooperative framework which must continue to be further promoted so as to enable us to make significant progress in facing the challenges that lie ahead and in achieving the policy aims set out in the Madrid Declaration.

In the 1980s, there was a wave of pessimism regarding Latin America. In the 1990s, this feeling in relation to the region's future has changed radically, and strong optimism has become manifest. The events of last December have cast some clouds on the horizon, which have started to dissipate in the second quarter of 1995.

Such short-run changes in perception are misleading. What really matters is the sense of purpose and direction of the policies and of the structural reforms being implemented in Latin America. The reversal of capital flows following the events of last December did not abate the pace of these positive changes. On the contrary, they gained new momentum and strength.

Latin America, within a fully democratic system, has achieved great progress in its macroeconomic reforms, and especially in modernization of the state. The region has also gone through a vigorous process of internationalization. The quality of nontraditional exports has significantly improved. Trade liberalization and the increasing absorption of new technologies and direct investments are facilitating a considerable rise in productivity. Financial markets have been liberalized. Previous restrictions against foreign investments have been lifted. Privatization became an important instrument to attract direct investment to the region.

We are aware that many problems remain to be solved. For example, it is necessary to monitor at all times the dimension of the current account deficit. Neither can countries rely heavily on short-term capital inflows. Latin America must in particular increase domestic savings rates. Social sector development is an enormous challenge for the region. More generally, we have to continue to reform the state and build effective public sectors in order to have healthy, efficient, and competitive private sectors.

On the other hand, we are proud of the successful sub-regional integration initiatives in Latin America, which are contributing to an impressive increase in trade flows not only within the region, but also with our international partners. At the same time, Latin America is participating actively in the ongoing negotiations at the hemispheric level, under the aegis of the Enterprise for the Americas.

Trade among the MERCOSUR countries (Brazil, Argentina, Uruguay, and Paraguay), for example, has continued to flourish and is going to show in 1995 a figure higher than the approximately $10 billion reached last year. Besides participating in hemispheric initiatives, the Southern Common Market is negotiating free trade agreements with other countries of the region, under the umbrella of the Association for Latin American Integration. The MERCOSUR is also negotiating with the European Union a comprehensive agreement to promote economic relations and bilateral trade.

Allow me now to say a few words about the economic situation of Brazil. The Real Plan, introduced on July 1, 1994, is at present in its sixteenth month. There is no doubt that it is the most successful stabilization plan in Brazil's history. Previous attempts were overtaken by events within a few months of their implementation and failed to reach even a first anniversary.

At the end of June last year—just prior to the launching of the Real Plan—inflation was running at the astonishing rate of 7,000 percent per year. In the first half of 1994, it reached a monthly average of 43 percent. Now, inflation is around 1 to 2 percent a month. Sixteen percent accumulated in the first nine months of 1995. These are the lowest figures in almost a quarter of a century.

It is important to stress that this sharp and continuous drop in inflation was attained without price or wage freezes, confiscations, breach of contracts, or recession. It has been a consequence of a gradual process initiated back in June 1993, when the so-called Program of Immediate Action (PAI), which paved the way for the introduction of the Real Plan, was announced. President Fernando Henrique was then Minister of Finance.

Behind this program was the idea that any serious effort at stabilizing the Brazilian economy must start by addressing the state of relative disarray of our public sector. And we have made substantial progress in this direction. Economic growth has also contributed to the improvement in the Government's fiscal balance.

Tight policies are being pursued not only in the realm of money supply, but also in the field of credit, since the very inception of the Real Plan, to render the rate of growth in domestic absorption compatible with price stability and a satisfactory balance of payments situation.

Yet, the rate of growth greatly increased in the first quarter of 1995, when, in relation to the same period of 1994, GDP grew by 10.4 percent, industry by 14.3 percent, and sales by 28 percent, all in real terms. This represented a threat to macroeconomic stability and, hence, the need for additional restrictive measures adopted at the end of the first quarter of 1995, which are becoming gradually more flexible in the light of a cooling off in domestic economic activity.

On the external front, Brazil took a major step forward by establishing a policy of exchange rate bands. The fact that Brazilian exports have continued to grow significantly, combined with the present low rate of inflation, is an indication that this exchange rate policy fits our stabilization program.

Brazil has, for some time, pursued a conservative policy with regard to its balance of payments. The current account showed a deficit of only 0.2 percent of GDP in 1994, 0.1 percent in 1993, 0.3 percent in 1991, and even a small surplus in 1992. The events of last December proved the correctness of our position. As well pointed out by the IMF's *World Economic Outlook*, the dampening of net capital inflows was relatively moderate, and the confidence of investors was quickly restored.

It is in this constructive light that international observers should look at the temporary emergency provisions introduced earlier this year to reduce excessive imports of certain durable goods, such as automobiles. We are confident that our trade figures will continue to improve. Our balance of trade showed, last July, an equilibrium after eight months of deficits, and in August, a $328 million surplus. In September, the trade surplus was around $500 million. There should be no doubt about the continuation of the policy of trade liberalization in Brazil.

The greatest challenge now facing my country, in the economic area, is to achieve stability on a lasting basis and to reach a one-digit annual inflation rate in a gradual but firm manner. No other country in the world experienced a longer period of high and chronic inflation and went further than Brazil in promoting the indexation of its economy in a sort of vicious circle in which inflation and indexation fed each other. The gradual deindexation of our economy is essential. Important measures in this direction have already been taken in the fields of salaries, public prices, exchange rates, and interest rates.

Also essential, in order to consolidate stabilization and to attain self-sustained growth, is a successful reform of our 1988 Constitution, which will enable, among other things, the modernization of our public sector and the attainment and maintenance of fiscal equilibrium—the true anchor of any successful stabilization program.

Congress is supporting the proposals of the Executive Branch for the amendment of our Constitution and, indeed, has already approved most of those which were brought to its consideration in the first half of 1995, such as the proposals that lifted previous restrictions against foreign capital and opened up private investment, both Brazilian and foreign, in the areas of telecommunications, energy, gas, transportation, petroleum, and mining.

The Executive Branch has recently sent to Congress two proposals: one for the reform of the fiscal and tax systems, with a view to simplification, clarity, and the removal of burdens on investments and exports; and the other for the reform of public administration, aimed at streamlining, cutting, and controlling expenditure.

The Brazilian Government also gives high priority to the implementation of the privatization program and to the reform of the social security system. They will create, among other things, the proper conditions for the lowering of our internal public debt and for the increase in our domestic savings rate. There remains much to be done in regard to bureaucracy, red tape, deregulation, and more efficient public management.

The achievement of the objectives on the present Administration's economic agenda will bring about the reduction of production costs in Brazil. By lowering the so-called Brazil Cost, it will be possible to increase the absorption of direct investment and new technologies by the Brazilian economy, as well as to promote our exports of goods and services.

We have turned the page of the foreign debt problem and all the positive implications of this achievement are now starting to be felt. After fifteen years, the Federative Republic of Brazil was again able to borrow directly from international capital markets in two successful operations. The first, in May 1995, was an issue of 80 billion yen-denominated bonds. The second, in June, was an issue of 1 billion deutsche mark.

Let my final words be to draw your attention to a point made by President Fernando Henrique in his speech on July 1, 1995, during the formal ceremony of celebration of the Real Plan's first anniversary. In reality, the Real Plan did not change the Brazilian society. The truth is that we, as a nation, had already changed before the launching of the Real Plan, making possible its success. Brazilian society was obviously tired of inflation and became eager for stabilization. No serious analyst believes today in the possibility of a sudden sharp rise in inflation in Brazil.

President Fernando Henrique received from the polls a clear mandate to carry on with the Real Plan. His administration will not spare any effort to ensure price stability and self-sustained economic growth. And this is the most important contribution that Brazil may give to the prosperity of its international partners and specifically to its region, Latin America, where structural reforms are under way, perfectly in tune with worldwide developments.

I came here to leave a message of optimism regarding Latin America and Brazil, but not a message of naive optimism. We are aware, with a deep sense of humbleness, of the challenges which remain ahead in both the domestic and international fronts. However, even greater is our confidence in the future of our region.

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

Manmohan Singh

Mr. Chairman, may I congratulate you on assuming the Chairmanship of these Annual Meetings. I also join my fellow Governors in welcoming Mr. Wolfensohn to his first Annual Meeting as President of the World Bank and congratulate him on a truly inspiring address. The World Bank Group is indeed very fortunate in having at its helm a person of his vision, deep commitment, and outstanding leadership.

I share the view of fellow Governors who have noted several favorable features in the contemporary world economy; the growth rates for developing countries are higher than projected earlier; private capital flows to developing countries are set to rebound quicker than had seemed likely; and the recent growth of world trade has also been better than expected. However, there are several disquieting aspects as well. Growth prospects for industrial countries for both 1995 and 1996 have now been scaled down. Unemployment levels in industrial countries remain unduly high, and could spur protectionist sentiment and action. Fiscal deficits in many industrial countries remain large, raising interest rates and thereby adversely affecting the availability of scarce investible resources for developing countries.

Developing countries all over the world are today engaged in an unprecedented restructuring of their economies and policies to take advantage of the possibilities offered by increasingly integrated world markets. These changes have the potential to usher in a period of sustained growth of income in the developing world, which is the only lasting solution to the problems of chronic poverty. But this can happen only if developing countries have a supportive international environment. The Bretton Woods institutions can, and must, play a major role in providing such an environment.

As economies open up and integrate with the world economy they will face new challenges or new uncertainties especially in a world of high capital mobility. The Fund can play a vital role in identifying likely danger spots and systemic weaknesses, providing resources to countries in need on appropriate terms, and also providing credible safety nets which can be quickly deployed in the event of crisis. In this context, we welcome the progress made in improving the flow of information to the Fund and we also support the proposal for instituting an emergency financing mechanism. We also welcome the decision to make the enhanced structural adjustment facility a permanent facility. However, these initiatives can be effective only if the Fund's resources are adequately enhanced. Progress in this area has been less than expected.

The Interim Committee last April had given a clear direction to the Executive Board of the Fund on the eleventh quota review. Regrettably, not much progress has been made in this area. I am also concerned that the preliminary calculations in Fund staff papers suggest a further reduction in the share of developing countries as a group in Fund quotas. These calculations do not take into account the improved economic performance of developing countries in the last few years. Nor do they reflect the growing awareness of the emerging role of developing countries as a major locomotive of world growth. Clearly, these formulae need to be reconsidered before they are used for determining quotas for the eleventh review.

While there is agreement to expand available resources through the General Arrangements to Borrow, we have yet to see specific commitments of finance for this purpose. There is a danger in allowing a widening gap between the international community's recognition of the need to augment the Fund's resources and its ability to provide resources to fulfill the larger mandate. An inadequately funded IMF will lose credibility and this could compound the problems of volatility and uncertainty in the international economic environment that is now on the horizon. This could weaken the reformist thrust in developing countries and dampen the growth of world output and trade. Thus, we must strive jointly to overcome the hurdles in the path of the necessary increase of the Fund's resources.

The last year has been a period of considerable change and assessment of the World Bank's role and operations. The Bank's organization and operational focus are now increasingly on poverty and concerns like environment, gender, and health. This is all welcome. But the future must also ensure an increased flow of long-term investment resources to developing countries. And yet Bank lending in real terms has not gone up since the early 1980s. In fact, the net resource transfer has already turned negative.

As we see it, the Bank has a special role to play in relieving infrastructural constraints to rapid growth in developing countries. Infrastructure services are crucial not only for accelerating growth but also for poverty alleviation. There is scope for inducting private capital flows into the development of infrastructure and most developing countries are striving to maximize such inflows. But private flows will not be enough. Developing countries have to look to expanded flows from multilateral institutions in support of infrastructural investment. The Bank should increase lending beyond the 5 percent it now provides of total infrastructural investments in developing countries.

We welcome the new emphasis in the Bank's work on environmental concerns. We are deeply committed to integrating environmental concerns into our development strategy. I would, however, repeat the concern that I had sounded in Madrid last year on the need to ensure that environmental concerns must not become obstacles to sustaining development or alibis for letting the poor remain poor.

A major issue before us is the follow-up action on the social summit. Our Government is committed to a broad-based program of poverty alleviation and integrated social development, laying particular emphasis on elementary education and primary health care; that indeed is a major inspiration for our economic reforms, which, among other things, seek to reorient public expenditure in favor of social sectors. As regards the social summit, a major recommendation emerging from its deliberations was that international financial institutions must complement adjustment lending with enhanced and targeted social development lending. New and additional financial resources must therefore be mobilized towards this end. Apart from international finance, technology and human skills must be harnessed to eradicate global poverty. That is the mission and the vision we must work towards.

I was deeply moved by President Wolfensohn's strong statement on the importance of the International Development Association (IDA) as an effective instrument for promoting development and poverty alleviation in the world's poorest countries. In a world of massive income disparities among nations, where a quarter of the world's population still lives in abject poverty, the vital role of concessional multilateral development assistance, as provided through IDA, is self-evident. The scale of assistance provided by IDA is modest compared to the enormous requirements. I hope the international community will recognize the need for early action to ensure adequate financing for IDA-10 and IDA-11.

A failure to do so will, in particular, hurt programs of poverty alleviation and social development without which we cannot mobilize the requisite political and moral support for programs of adjustment and structural reforms.

I would like to end with a few remarks on India's efforts to accelerate its economic growth by undertaking rapid structural changes. The depth and breadth of our reform program are well known. Although we are still in the early stages of economic restructuring, the Indian economy has already reaped substantial gains from the reform measures. Economic growth has recovered to nearly 6 percent. Industrial growth is strong and expected to touch 10 percent in the current year. Food production and foodstocks are at record highs. Exports are buoyant for the third year in a row. Foreign investment has risen from a trickle to nearly $5 billion a year. Foreign exchange reserves are ample. Private domestic investment is buoyant. Inflation has been brought down to an annual rate of around 8 percent and is expected to decline further. More new jobs are being created than ever before. Our objective is to build on this success and put the economy on a sustainable path of around 7 percent growth. Many countries in East Asia have achieved this and there is every indication that India can also do so. But to realize these aspirations we must be able to count on a supportive international environment of open markets and strong well-functioning international financial institutions.

The world is changing exceedingly fast. The changes have opened up immense opportunities. But these opportunities cannot be tapped unless institutions adapt to the altered circumstances. This is the real challenge before the Bretton Woods institutions.

Statement by the Governor of the Bank for Poland

Hanna Gronkiewicz-Waltz

It is an honor for me to participate for the fourth successive year in the Annual Meetings of the Boards of Governors of the World Bank Group and the International Monetary Fund. These meetings provide an excellent opportunity to exchange views and grasp the recent developments in the world economy.

In today's world, we are living in times of change. Changes occur on almost a day-to-day basis; they are part of our life. The pace and quality of adjustments to the changing environment determine the position of individuals or countries. The timely reaction to challenges may be a source of success; delays in reaction usually bring failure. In most cases, implementing reforms needs to be forward-looking and requires strength, vision, and determination from policymakers. Many areas of the world are undergoing radical reforms. However, I still consider the simultaneous change in both political and economic systems as one of the most challenging tasks we may face.

Poland is often cited as probably the most successful transition economy. Our country is currently one of the fastest growing in Europe, showing a growth trend since mid-1992. For the last two years, this growth has been led primarily by exports, which have shown a remarkable increase of almost 40 percent this year. The second growth factor is investment, whose volume has also risen by two-digit figures. We are justified then in believing that we have embarked on a path of sustainable and viable growth, which recently reached the level of 6 percent. In the environment of strong growth, it has nevertheless been possible to maintain constantly the downward trend of inflation since 1991. This strong growth made it possible first to stabilize and then to decrease the rate of unemployment. Developments in the balance of payments led to a healthy increase in our official foreign exchange reserves, which dramatically improved our financial position; the high rating of our new sovereign debt and repayment of our IMF credits before maturity are the most visible signs of this new situation. This new situation is an unqualified success, but on the other hand this success poses a major challenge for monetary and fiscal policy.

Notwithstanding these positive developments, our transition to a mature market economy is still not complete. The most important measures we have yet to introduce may be described as belonging to the realm of structural policies. The share of the private sector in the Polish economy is close to two-thirds; however, some branches of our industry are still dominated by state-owned enterprises, Polish agriculture is still insufficiently sensitive to market forces, and the public finance sector is heavily burdened by obligations inherited from the past system.

All these structural deficiencies are reflected in the volume and structure of budget revenues and expenditures. The public sector borrowing requirements will grow rapidly in the years to come unless deep changes are fully implemented in major areas. One of the key problems faced now by Poland, and quite a few developed countries, is how to finance a pension system.

The need for reforms in this area was recognized several years ago. However, none of the governments up to now has initiated real changes. These reforms are even more difficult now when it could be possible to grasp some of the fruits of growth, but reforms have to be painful for some part of the society. Nevertheless, the final shape of the pension system and its initial capitalization should be implemented now. Privatization appears to be the only feasible option to provide initial capital, through either the allocation of the proceeds from privatization or the transfer of shares of privatized companies. Recently, the cabinet agreed upon a program in this respect that may form the starting point for promoting the new shape of the social security system.

The Bretton Woods institutions are dedicated to supporting market-oriented and professionally sound reforms. Both the IMF and the World Bank have already thoroughly researched our economy, with many of their studies having been directly linked to these structural problems. We hope that we may count on further support, based on their expertise in resolving such problems in the world and their knowledge of the Polish economy.

I am fully convinced that Poland's structural problems should be vigorously tackled now. The art of adaptability is to be able to predict the future and react well in advance. In this context, I would like to express my high appreciation to Mr. James Wolfensohn, in his capacity as the President of the World Bank, for taking up the challenge facing the future of the World Bank. I do hope that the proposed reforms, targeted at professional excellence, effectiveness, and accountability, will be implemented in time to the advantage of the World Bank, its shareholders, and clients, as well as to global stability.

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

Owen S. Arthur

I have the honor to speak on behalf of the Caribbean Community and Common Market (CARICOM), namely, Antigua and Barbuda, The Bahamas, Belize, Dominica, Grenada, Guyana, Jamaica, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines, Suriname, Trinidad and Tobago, and my own country, Barbados.

We are very appreciative of the work of the late Lewis Preston and express our condolences to his family.

I join my fellow Governors in welcoming you, Mr. Wolfensohn, to the first meeting in your capacity as President of the World Bank Group. We pledge our support to you and will be delighted to welcome you at our next heads of government meeting in Guyana, where we hope to provide you with a clear statement of our perspective on the peculiar problems of CARICOM states.

The countries on whose behalf I speak have for some time now been making net repayments to the international financial institutions. This situation has its roots in the sometimes cumbersome and often time-consuming approval and disbursement procedures for investment lending and in the concentration on lending for adjustment in the previous decade. But the crisis in Mexico has shown that the Bretton Woods institutions can respond quickly and effectively to extraordinary situations. We believe that proposals to reform the Bretton Woods and other multilateral financial institutions should emphasize the improvement of this capacity for quick response to crisis situations of whatever nature.

Since our last meeting, a number of outstanding issues in both the Bank and the Fund still claim our attention. We are pleased with the progress that has been made so far on most of these issues and urge both institutions to press on with their search for agreement on solutions.

We give our full support to your efforts, Mr. Managing Director, to conclude an agreement to increase the resources of the Fund. Accordingly:

- We support an equiproportional doubling of Fund quotas under the Eleventh General Review of Quotas, which should be followed by a discussion on selected quota increases to correct any anomalies that may exist.
- We support an immediate allocation of SDRs, which is fully justified by the global need for reserve supplementation.
- We support the agreement on the conditions under which the Fund should support currency stabilization funds, on a short-term basis, in the context of an exchange-rate-based disinflation strategy and within limits and guidelines of the current access policy.
- We support the proposals to make ESAF self-sustaining by using the income from the sale of some of the Fund's gold, as proposed by the U.K. authorities, to help finance the subsidy element. This facility should continue to be the centerpiece of the Fund's strategy to help lower income countries, including those that are heavily indebted.

We endorse the efforts to strengthen the effectiveness of Fund surveillance, especially in light of the demonstrated volatility of the international capital markets. Surveillance, however, must be symmetrical in application to all members of the Fund. We also note the agreement on proposals to reactivate and simplify the General Arrangements to Borrow, but recognize that they are no substitute for the Fund's ordinary resources.

Let me turn now to Bank issues. We regret the present threat to IDA-10 and uncertain prospects for IDA-11. But we are encouraged by your efforts, Mr. President, to secure a satisfactory outcome to the IDA-11 Replenishment. It would be most deplorable if a narrow view of global responsibility should lead any donor to retreat from its commitment to IDA and from support for alleviating conditions in the poorest countries. We call upon all donors to give their full support to an increase in the resources of IDA and on terms that would protect the access of vulnerable small island states to concessional resources.

We also support the ongoing work to find ways and means of easing the burden of multilateral debt on heavily indebted low-income countries. We recognize the complexity of the issues involved and hope that acceptable solutions, which do not carry adverse implications for countries that have continued to service their debt, will be brought forward for adoption by the time of the spring meetings of the Development and the Interim Committees.

We look forward to an expanded role for the International Finance Corporation (IFC) in the development of the private sector in CARICOM, especially, in a country such as Barbados, which has graduated from the status of a borrowing member of the Bank and yet has a long way to go in developing a private sector capable of playing an expanded role in economic growth and development and in employment creation. The IFC can provide assistance to the private sector in areas such as project development, evaluation, and financing, and in financial sector development.

The Bank should re-examine its graduation policies to ensure more even-handed application of its guidelines and to ensure that the decision to graduate is made when the graduating country is on a sustainable path. Review of the guidelines should also seek to avoid the dilemma of states being excluded from IDA resources while at the same time they are not deemed creditworthy for IBRD lending. But, even in our own case, where graduation has taken place prematurely, in our judgment, we urge the Bank at a minimum to continue to provide critical technical assistance that is often needed.

An unusual spate of hurricanes has destroyed both the entire productive capacity of Antigua and Barbuda and the entire agriculture and significant portions of the infrastructure of Dominica, and has caused considerable damage in St. Kitts and Nevis. We, therefore, urge the international community in general, and the Bank and the Fund in particular, to put in place the mechanism to respond to natural disasters with the medium- and long-term assistance needed for reconstruction. Such responses to the special needs of small developing countries should fit within the framework that is so clearly articulated in the Program of Action of the UN Conference on Small Island Developing States held in Barbados in 1994.

STATEMENT BY THE GOVERNOR OF THE BANK FOR PORTUGAL

Eduardo de Almeida Catroga

Catching Up Within the European Union

In the last decade, Portugal implemented a catching-up process within the European Union (EU). It transformed itself into a developed small open economy while participating fully in the construction of the EU. One can hardly find other examples of such a thorough economic restructuring and liberalization in such a short span of time.

In terms of macroeconomic stabilization and of catching up with wealthy European patterns, results were viewed as impressive by international analysts. Inflation fell from a high of 30 percent in the beginning of the 1980s to a low of 4 percent at present. Gradual and persistent fiscal consolidation brought the overall government deficit down from 10 percent to 5.5 percent in the current year. As a consequence, the debt-to-GDP ratio remained moderate—around the EU average.

Unemployment exhibited a high correlation with the business cycle, and the reforms introduced in the labor market helped the unemployment rate to remain the lowest in the EU, after Luxembourg and Austria.

Current account stability, combined with the persistence of net capital inflows, created a history of high levels of foreign reserves. Growing credibility of the policy mix has also put interest rates on a downward trend.

Economic growth, coupled with a sustainable real exchange appreciation, increased wealth at one of the fastest paces in Europe. Translated into relative purchasing power parity, the Portuguese GDP per capita, between 1986 and 1994, exceed the EU average by 10 percentage points—reaching 63 percent at present.

The proper use of important structural funds received from the EU since Portugal's membership in 1986 was instrumental in accelerating this development. However, the performance of the economy was primarily due to two factors:

- the consistency of the policy mix, which combines demand policies for macroeconomic stabilization with strong supply-side policies for structural change and economic liberalization; and
- the responsiveness of private entrepreneurship, which gained a renewed dynamics with the full liberalization of the economy and the wave of privatization of public companies.

Along with structural change, the regulatory framework changed dramatically. Supply-side policies were primarily important in four major areas:

- increased concentration of resources on higher value-added sectors;
- monetary and financial liberalization;
- privatizations; and
- development of capital markets.

Rapid modernization is noticeable in the sharp increase of higher value-added segments in all sectors, primarily in industry, where technological and managerial patterns are rapidly improving. Employment in agriculture halved in ten years, to a low of 10 percent at present, and will continue to fall in the years ahead. On the contrary, services are rapidly growing in importance and are the major source of new jobs, especially those linked to new demands from industry and consumers.

The ratio of public investment to GDP—in physical and social infrastructures as well as in education—became one of the highest in the EU.

This effort sharply reduced historical gaps and created opportunities for new enterprises demanding higher skills of the labor force.

In spite of pressure on the budget, the fiscal position improved gradually according to a medium-run strategy. Prudent debt management, with a moderate increase of external indebtedness, was an element of this strategy.

Increasing credibility of the policy mix was recognized in 1993, when Portugal's credit rating was upgraded to AA– by Standard & Poor's. This enlarged the options for managing public debt and, since then, Portugal has launched several large issues. These issues were placed in international and global bond markets with lower spreads than expected and are trading quite well in the secondary markets. Nevertheless, external debt remains quite modest. It is only 17 percent of total debt, half of foreign reserves, and 12 percent of GDP.

Major steps of monetary and financial liberalization were implemented in the last three years, after a careful preparation. In 1991, monetary policy was implemented through open market operations. Monetary finance of the Treasury ended, and a new regulatory body and code were introduced for securities markets, totally in line with the standards of mature markets. In 1992, the escudo became a full member of the exchange rate mechanism of the European Monetary System. Capital controls were fully eliminated. And the banking sector regulation was fully integrated with the one of the European Union. In 1993 and 1994, following the upgrading of the international rating already mentioned, the external debt management was aligned by international standards. Withholding tax for nonresidents was abolished, and the insurance sector became fully integrated within the European market. Independence of the Bank of Portugal improved with the adaptation of its organic law, in accordance with the Maastricht Treaty.

In the last five years, Portugal implemented an ambitious privatization program, according to four basic objectives:

- improve competitiveness of the economy while reducing state involvement;
- reduce public indebtedness;
- widen domestic share ownership; and
- enhance the international stature of the Portuguese stock market.

After privatizing about one hundred companies, Portugal became the third largest privatizer within the OECD. The weight of public corporations in GDP shrunk from 20 percent in 1990 to 8 percent in 1995, the most striking example being the banking sector, where the market share of public banks fell from 87 percent to 30 percent at present. In the insurance sector, the move was similar, and mergers and acquisitions with banks have been very active recently. A few of the largest industrial corporations are already partially privatized—cement, telecommunications, oil refinery and distribution, and paper pulp are among the major sectors contributing to market capitalization.

Altogether, the targets of the privatization program have been quite well attained, but the process is still incomplete. Its pace should be pursued and its range enlarged to reach one of the lowest weights of public companies in GDP within Europe by the end of the century, so as to fully accomplish the goal of improving economic efficiency.

Capital markets which were traditionally very modest had to be virtually created ex novo. With the view of continuously increasing market efficiency, a program of gradual institutional changes was implemented. Major changes were:

- creation of a continuous equity market and of an over-the-counter market for large bond transactions;
- deregulation of primary debt issuance by nonresidents;
- improvement of domestic settlement systems in line with international standards; and
- abolition of stamp duty on all security transactions and of withholding tax on debt interest.

Market capitalization as a percentage of GNP now reaches 18 percent, a figure close to most of the emergent capital markets. With the coming to the market of major companies, which are partially privatized at present, the size of the market will increase considerably. Continuous progress in liquidity and market efficiency may permit Portugal's stock market to rank with the group of small but mature markets of the world.

The process of modernization is still at an incomplete stage. Much remains to be done and the challenges of the years ahead will present as many difficulties as the ones experienced and overcome in the last years. The completion of macroeconomic stabilization requires pursuit of the present economic policies of wage moderation, fiscal consolidation, and disinflation. This strategy is a necessary condition to enhance the rate of potential economic growth on a sustainable basis. Therefore, it would be pursued even if there was not the challenge of meeting the Maastricht criteria designed for the European Monetary Union.

This view is the object of a broad social consensus, which acknowledges the importance for Portugal to be in the core group of countries that lay the foundations of the European Monetary Union.

There are also important structural changes to be implemented requiring pursuit of active supply-side policies.

All in all, one can say that the significant success that Portugal achieved in the last decade is largely due to the consistency of the policy mix and to the unusually prominent role that supply-side policies have played in it.

Furthermore, the results clearly support the benefits from rapidly increasing flexibility and free competition in the domestic markets and full integration in the world economy.

On these grounds, Portugal's experience in the last decade may be an interesting case study for small open economies attempting to run a process of fast modernization with full liberalization of international trade and capital flows.

Statement by the Governor of the Fund for Gabon

Marcel Doupamby Matoka

The celebration, a year ago, of the fiftieth anniversary of the founding of the Bretton Woods institutions revealed the magnitude of the challenges facing these institutions and also provided us with the opportunity to recommend ways and means to deal with these challenges in a spirit of enhanced international cooperation. The time now seems ripe for us to review the international economic developments that have occurred since then, and to place into a proper perspective the relationships between our countries, the World Bank, and the International Monetary Fund.

The data currently available confirm that the international economy has indeed entered a new growth cycle and that its overall short- and medium-term prospects seem promising. In the developed countries, the process of consolidating the recovery was accompanied in 1994 by a relatively low level of inflation that had not been attained in these countries for roughly thirty years. Among the developing countries, Asia sustained its high growth rate, while economic performance in other regions, including sub-Saharan Africa, was encouraging.

Nevertheless, we remain concerned about the persistent disparities among developing countries, in terms of both economic growth and the standard of living of our respective populations, despite recent statistics of the World Bank and the Fund showing that these disparities are marginally shrinking. Furthermore, recent trends in financial markets show reflows of resources not only from certain emerging countries but also from many other developing countries, which forces us to temper our optimism about the continued expansion of the world economy. We are concerned about the negative impact of these trends, given the inherent weaknesses of the international financial system. The Mexican financial crisis bears witness to the precariousness of this situation. In fact, we fear that growth in developing countries, at least in the short term, will be affected by a slowdown in capital flows to emerging and other developing countries. Added to this is the risk entailed by instability in international financial markets and exchange rate distortions of the major currencies.

We urge the major developed countries, working in concert with the Bretton Woods institutions, to identify solutions that will mitigate, or even prevent, these problems. It is in this context that we welcomed the decision of the Group of Seven meeting in Halifax to discuss issues related to the role of the multilateral financial institutions in the new international economic environment. While praising the outcome of this meeting, and in particular, the pledge made by the participants in regard to strengthening the multilateral institutions, encouraging the growth of the global economy, reducing poverty, and responding to and if possible preventing crises, it is our hope that in common with all of the developing countries, we will henceforth be fully included in all discussions aimed at improving the international financial system, so as to ensure that our concerns and interests are duly taken into account.

The improved prospects for consolidating growth in our countries are the result of the untiring efforts and sacrifices we have made in implementing rigorous adjustment and economic reform programs with the support of international financial institutions, including the Bretton Woods institutions. But much remains to be done by the whole international community to support our efforts to place our economies on the road to sustained growth.

More than ever, Africa's major challenge is to improve the living conditions of its people. In this respect, we fully endorse the heartfelt views expressed yesterday morning by the Managing Director of the Fund in his statement, in which he drew attention to the scandalous persistence of poverty in certain regions of the world. From our perspective, we are aware that the extent to which the living standards of our peoples can be improved is primarily dependent on our own efforts and the implementation of a clearly defined development strategy. This strategy should be based on the development of basic infrastructures, the development of human resources, a thriving private sector, and the promotion of economic diversification. It is our conviction that no reform program can succeed unless it enjoys adequate social and political support. In this regard, we are thus heartened by the outcome of the International Conference on Population and Development held in Cairo in September 1994, the World Summit for Social Development held in Copenhagen in March 1995, and the Beijing Conference on Women, which took place recently. We earnestly hope that the conclusions of these global conferences will translate into effective actions that can be incorporated into the design and financing of adjustment programs and economic reforms supported by the Bank and the Fund.

Through their own experience, the Bretton Woods institutions have learned the importance of well-designed programs. Although Africa must necessarily draw on the development experiences of others, it must first rely on its own internal deliberations and strategies. We must effectively position our countries at the center of the development debate. In this context, we draw your attention to the necessity of adapting the assistance strategies of the Bretton Woods institutions to our own conditions and our own growth objectives. These assistance strategies must elucidate the economic and social objectives of our countries. The Bank and the Fund should support the economic strategies, reform programs, and projects identified by the countries themselves. In other words, we earnestly hope that our adjustment programs will become more internally generated and that the assistance strategies will be jointly designed to ensure full national participation. Adjustment programs are more likely to succeed when they are effectively designed by us and when a national consensus is reached in the context of the political and economic transformation under way in Africa. We emphasized these issues in the recent memorandums to the President of the World Bank and the Managing Director of the Fund. It is our hope that our views on these matters will be heeded. The issue of public expenditure reviews has been discussed extensively in the Development Committee within the context of its review of the conclusions and recommendations of the World Summit for Social Development. While valuing the advisory role of the World Bank and IMF in public expenditure reviews, we are strongly of the view that such reviews should not lead to the imposition of additional conditionalities in areas in which the Bretton Woods institutions have no mandates.

While we are resolved to continue our macroeconomic and structural adjustment efforts, we also believe that these efforts must be supplemented by a sufficient volume of concessional resources. We appeal to the international community for this assistance, and specifically call on the Fund membership to firmly support a permanent enhanced structural adjustment facility (ESAF), for the effectiveness and indispensability of the ESAF in our countries is a matter of record. We are seriously concerned about the uncertainties surrounding the replenishment of International Development Association (IDA) resources. As Mr. Wolfensohn has said, IDA is the backbone of international efforts to help poor countries to help themselves. It is thus clear that if commitments undertaken within the IDA framework are in doubt, our countries' efforts to achieve growth will be seriously undermined. In this context, we join the President of the World Bank and the Managing Director of the Fund in urging the international community, particularly the major contributors, to show greater commitment to development assistance, by helping secure the already committed IDA-10 and contributing more substantially to the IDA-11 Replenishment and providing a sufficient volume of resources for financing the Special Assistance Program for Africa. We are deeply disappointed by the sharp drop in the level of official development assistance by the industrial countries, not only as a percentage of their GDP but also in real terms. We also deeply regret that net transfers of resources in real terms from the Bank Group to Africa were negative in 1994. These trends in resource transfers are all the more disturbing as most African countries still do not have access to international capital markets. While greater flows of official and concessional assistance to our countries are indispensable, we hope that the international community will help us create the necessary conditions to attract private capital flows. We believe, in this regard, that the economic and institutional reforms and the process of political liberalization in progress in our countries will serve to stimulate foreign investment.

With regard to the serious structural problem of indebtedness, which is a major obstacle to growth in our countries, we wish to draw the attention of the international community to the following facts: It is extremely disturbing to note that despite debt rescheduling and forgiveness, our countries are still confronted with an increasing heavy debt burden. In 1994, for example, the debt-GDP ratio of the sub-Saharan African countries was 98 percent, while the ratio of debt to exports for these same countries amounted to about 400 percent. Although application of the Naples terms represents an encouraging step towards a solution to the problem of bilateral debt within the Paris Club, the debt of low-income African countries still remains a serious impediment to their development prospects. The situation is further exacerbated by the steady increase in the share of multilateral debt in the total debt stock. That is why we welcome the sensitivity to this problem shown by the World Bank and the Fund, and the importance attached to identifying innovative solutions. We therefore urge the World Bank and the Fund to establish a mechanism intended to provide a lasting and effective solution to the problem of multilateral debt, and also to provide additional concessional resources to the countries concerned. Indeed, while reaffirming our determination to continue the adjustment efforts that our economies require, we appeal to the international community to identify innovative solutions aimed at reducing the stock of debt. These new formulas should be accompanied by new infusions of concessional resources to supplement domestic savings so as to promote the resumption of sustained growth.

We also wish to stress the need to enhance the effectiveness of our public administrations in order to promote development. It is impossible to overemphasize the importance of public investment, which, in turn, promotes the emergence and sustained development of the private sector in our countries. In this connection, it is our hope that the International Finance Corporation will take more risks in Africa. The strengthening of institutional capacities must go hand in hand with the process of economic integration and cooperation at the regional level. We therefore urgently appeal to the international community to support regional and subregional efforts in Africa, especially those aimed at strengthening subregional intergovernmental organizations, as well as those involved in the execution of community projects and programs. In this regard, we invite the Bank and the Fund to take into account the treaty establishing the African Economic Community, and the Cairo Agenda for Action on the Socio-Economic Problems of Africa.

With respect to international trade, studies conducted by the Bretton Woods institutions appear to indicate that ratification of the Uruguay Round Treaty will have little impact in Africa. Other studies, however, particularly those carried out by institutions in Africa, suggest that the impact will be very negative in the short or medium term. In any case, it has been amply demonstrated that the economic structures of the African countries are such that they would be unable to benefit in the short term from the free-market trade provisions advocated by the Uruguay Round Treaty. Thus, pending the diversification of their economies, African countries which are net importers of food products will see a substantial rise in the cost of their imports resulting from the reduction of agricultural subsidies. Furthermore, despite a brief improvement in export prices of certain primary products, the general outlook for the prices of commodities exported by most of our countries remains an uncertain one, and unfavorable movements in commodity prices cannot be ruled out. This in itself is clear evidence of imbalances in the prevailing international trading system that require addressing. We hope that the World Trade Organization (WTO) will play a leading role in promoting a more fair, balanced, and equitable world trading system. Moreover, the privileges that the African countries enjoyed under the Lomé Convention will also be curtailed. In these circumstances, we expect that the international community would ensure the orderly transition of our economies. We particularly appeal to the developed countries not to erect protectionist barriers that would adversely affect the African countries that have begun to diversify the structure of their exports. On the contrary, we hope that the developed countries will take steps to facilitate the access of African products to their markets. This is a necessary adjunct to the international assistance they can contribute toward the sustained development of our countries. Furthermore, the resulting additional costs to African net food importers and those countries which will lose preferential access to industrial countries' markets should be compensated for during the transition period.

Our countries have embraced political changes currently in progress and the move towards political pluralism and democracy. These changes have raised our peoples' expectations beyond limits sustainable by available resources. We are determined to pursue these reforms steadfastly, with the aid of technical and financial assistance from the international community.

While the major economic reforms that we have been implementing over the past decade are beginning to bear fruit, we are well aware that many challenges still lie ahead of us. To confront these challenges, we know in particular that we must pursue our macroeconomic adjustment efforts, improve the financial and public enterprise sectors, and enhance the private sector's participation in economic activities so as to achieve sustained economic growth over the medium term. The support of the international community is, however, indispensable in many respects. We are requesting bolder and more innovative actions to alleviate the burden of the African debt. We therefore urge the international community to sustain our efforts to build the economic institutions necessary to a well-functioning market economy. Lastly, we need the international community's support to mobilize the necessary external financial assistance that is required to complement domestic savings for durable investment and growth.

Statement by the Governor of the Fund for Denmark

Marianne Jelved

I have the honor of addressing this meeting on behalf of the three Baltic countries and five Nordic countries—Estonia, Latvia, Lithuania, Finland, Iceland, Norway, Sweden, and Denmark—on matters relating to the IMF.

Since the Annual Meetings last year, the upswing in the world economy has become more firmly established. During 1994, economic growth spread to almost all industrial countries. The economies in transition have also shown encouraging signs of recovery, especially in those countries where stabilization policies have been firmly implemented. Furthermore, in many developing countries a rapid economic expansion continues. Developments have, however, been marred by the Mexican crisis and exchange rate turbulence in the first months of this year. As a result of the recovery during 1994, world trade expanded strongly, recording the largest yearly gain since 1976. The Uruguay Round trade agreement, which took effect from January, will give further impetus to global trade and economic growth in the years to come.

All in all, prospects for the future development of the world economy are good. Nevertheless, a number of important challenges continue to face economic policies.

First and foremost, the unemployment rate is unacceptably high in many industrial countries, especially in Europe. A common and determined effort is needed in Europe to solve this serious problem. In this regard, a number of important initiatives were launched by the heads of state and governments of the European Union (EU) when they met in Cannes, France, this past June.

During 1994, we have experienced growth in employment due to the higher rates of economic growth. Continued growth is a precondition for continued expansion in employment. Growth is also important to ensure that countries proceed with the crucial structural reforms of—among other things—labor markets. In the short term, we must take further steps in the immediate future to achieve macroeconomic stabilization, especially as regards sustainability of public budgets. This is the basis for sustained growth and further progress in reducing unemployment.

Environmental problems are growing globally. Environmental considerations must be taken into account when formulating economic policies. This is an integral part of the overall economic policy guidelines of the EU, just as the need for safeguarding the environment was emphasized by the Group of Seven countries in their Halifax communiqué. It is also one important element in what Mr. Camdessus has labeled "high-quality growth."

One way in which economic policies can promote growth and employment, while at the same time protecting the environment, is to shift the balance of taxation away from labor and towards other taxes, for example, green taxes. Where such environmental taxes take the form of energy taxes, they should not create new wedges between imported and domestic energy sources. High-quality growth and macroeconomic stability must go hand in hand. We welcome that the Fund is attaching more importance to environmental factors in its economic policy advice to member states, where appropriate.

The relationship between the EU and the Central and Eastern European countries has undergone radical changes during the last seven years. All analyses point to the fact that Europe will reap considerable economic benefits from increased cooperation. Membership in the EU is regarded as essential by the Baltic and the other Central and Eastern European countries. Thus, the EU must not, and cannot, be inward looking. If these countries are to reap the full benefits of EU membership, they must ensure stable macroeconomic conditions and continue the necessary institutional and structural reforms. The EU, for its part, must stand ready to further improve access to its markets and provide financial assistance.

Let me now turn to the role of the Fund. Many things have happened since the Annual Meetings in Madrid last year. Discussions of the future role of the Fund and proposals from the Halifax summit of the Group of Seven countries will contribute to enhancing the policies of the IMF in the future.

The disappointing developments in Mexico in 1994 and their repercussions have sharpened the focus on an improved early warning system. An important issue for the future role of the Fund is how the Fund can assist countries to handle future crises like the Mexican crisis.

In a modern world in which economic relations have become globalized, it is important to strengthen surveillance to prevent future crises. This should be done, not only by regular surveillance of all members of the IMF, but also by paying particular attention to those members whose economies can have a systemic impact on the rest of the membership.

By strengthening surveillance, the Fund will be able to act as an "early warning instrument" and contribute to policy formulation in order to achieve sustained stability, particularly in exchange markets. However, the effectiveness of Fund surveillance and financial policies need to be clearly strengthened through regular and transparent information provided by member countries to financial markets. The more transparent information from member countries is, and the more transparent policies are, the more gradual the reactions of the markets will be. This will allow countries to be better prepared to take action in a timely way—rather than reacting to crises with the accompanying hardships for their populations. Therefore, the Fund must emphasize the need for members to provide better and more timely data both to the Fund and to markets. This issue is at the heart of the Fund's activities and the centerpiece of the present efforts to strengthen surveillance.

The Nordic and Baltic countries support the Fund's setting standards to guide member countries in providing data to the public and encouraging countries to produce, and widely disseminate, key data. We support that the Fund give technical assistance in cases where the authorities need help to produce or release the data useful for financial markets. We welcome the endorsement of the Interim Committee on this issue.

We are also in full agreement with the Fund's efforts to promote closer cooperation among the key players in the global economy and to strengthen surveillance as the central element of the Fund's contribution to better economic policies. The IMF's role in surveillance over macroeconomic and exchange rate policy has to be emphasized in the Group of Seven coordination process. In this context, macroeconomic stabilization is needed to avoid excessive movements in interest rates and exchange rates. We welcome the concerted action by the Group of Three countries to intervene in exchange markets and thereby reduce volatility.

The Fund's role regarding the heavily indebted poor countries is to encourage and support the pursuit of strong economic programs for these member countries through policy, technical advice, and financial support under a continuation of the enhanced structural adjustment facility (ESAF). ESAF is a convenient and useful instrument for the IMF to alleviate and smooth the necessary adjustments that have to be taken in poor countries—which was also endorsed by the Interim Committee.

In many African countries, unfavorable external conditions and high indebtedness, as well as domestic political difficulties, have made it more difficult to attain macroeconomic stability. The high debt burdens of many low-income countries emphasize the continued need for technical assistance and financing also from the Fund, but it is critical to focus this assistance on the areas most in need and on countries that are ready to address the underlying problems.

At the social summit in Copenhagen in May this year, there was a global consensus on the importance of poverty reduction as the major goal of sustainable development. The Fund has an important role in promoting economic policies oriented toward economic growth that brings lasting high employment, and growth that reduces poverty and income inequalities. This is indeed an ambitious objective, but we can go for nothing less when hundreds of millions of people in developing countries still live in extreme poverty.

In this connection, the Nordic and Baltic countries welcome the work under way in the Bretton Woods institutions regarding debt reduction for the poorest countries. The Nordic and Baltic countries consider the question of multilateral debt in heavily indebted poor countries very important and central in the discussion on the possibilities to alleviate poverty in the poorest countries. Resolving the debt problem for this limited group of countries calls for a concerted and comprehensive approach. All measures to assist the problem countries should be taken on a case-by-case basis, and performance on sound economic policies must be witnessed before debt relief can be granted.

Another important issue is the Fund's resources. It is essential for the Fund to have adequate resources to allow it to fulfill its mandate for the future. The Fund has to strengthen its resources by expediting the Eleventh General Review of Quotas to obtain sufficient ordinary resources to meet the needs of its members. We need to move quickly to complete the review of quotas.

An increase in the Fund's borrowed resources is also under consideration, in particular the General Arrangements to Borrow. The Group of Seven countries at the Halifax summit suggested that the Group of Ten, and other countries with the capacity to support the system, should increase the resources currently available under GAB. We find that GAB can be a useful instrument in situations in which the Fund's ordinary financial resources are insufficient to deal with systemic crises. The Nordic and Baltic countries believe that it should play a supplemental financing role for the Fund, but negotiations on this issue should not delay the Eleventh General Review of Quotas.

The Nordic and Baltic countries continue to support the Fund as the central international institution for laying down guidelines for global macroeconomic and exchange rate policies. The IMF is well placed among the international organizations to play a prominent role in furthering the prosperity and well-being of the global economy and its populations.

STATEMENT BY THE GOVERNOR OF THE FUND FOR ARGENTINA

Domingo Felipe Cavallo

It is an honor for me to address these Annual Meetings of Governors of the World Bank and the International Monetary Fund on behalf of the other countries in Latin America and my own, Argentina.

I would like to begin my presentation by commending Mr. Lewis Preston. I am pleased to inform you that the Argentine Government has decided to make a contribution to the "Preston Education Program for Girls." We fully share Mr. Preston's objectives regarding the importance of the education of women to economic development and poverty reduction.

We also wish to take this opportunity to welcome Mr. James Wolfensohn. He has been given a mandate and set the formidable task of helping our governments to fight against poverty, while, at the same time, trying to mitigate the damage to our environment caused by long years of poor economic policies. We fully agree with these general objectives, and I wish to use this presentation to discuss some specific points of the Bank's agenda. Before proceeding with that, let me briefly touch on the salient aspects of the Latin American situation.

Latin America

For some years now the Latin American countries have been engaged in far-reaching fiscal and structural reform. The result was a faster rate of growth for our region, which reached 5.1 percent in 1994. As you are well aware, this year, the financial crisis triggered by the devaluation of the Mexican peso has been a considerable contractionary force. This contraction was intensified by the major fiscal and monetary adjustment measures implemented as a necessary and appropriate response to the problem.

Though growth has slowed in Latin America this year, we do see many of these measures as building a sounder foundation for future growth. By this, I am referring to the efforts under way to radically reform the financial systems of many countries in the region. By making these systems sounder, the reforms have also given a boost to the rate of saving in the region.

Owing to the crisis, we have had to redouble our efforts to ensure that future growth will be more equitable. By implementing social safety nets, many of which are supported by the World Bank, social programs have been insulated against the effects of adjustment measures. There is also greater concern about the importance of better providing for society's basic needs, such as education and health, and serious efforts are being made to devise and offer new incentives for the creation of more productive employment through investment and growth.

I must also stress that, even though 1995 was a difficult year in economic terms, democratic elections in the region showed that our nations clearly preferred stability and structural reform. This experience is an indication that, in future, the degree to which the democratic governments in the region succeed or fail will depend on how well, and with what degree of transparency, they are able to meet the economic and social demands of their populations, and this would include economic stability.

In sum, we feel that 1995 has been a transition year for Latin America. Though the region has suffered the consequences of serious crises, the governments have implemented the proper measures to overcome these crises. As a result of these efforts, the faster growth already apparent will be placed on a sounder and more equitable footing. I would now like to make some comments which are more relevant to the work and agenda of the World Bank.

Role of the Private Sector

In his opening address, Mr. Wolfensohn talked about the need to find a strategy for the World Bank Group to work more closely with the private sector. We support this initiative because the contribution the private sector can make to economic growth is largely conditional upon the access it has to sources of funding.

The World Bank Group's ability to respond to these financing needs is restricted, to a certain extent, by its rules of operation. The private sectors of some borrower countries are finding that the possibility of receiving funding from these institutions may very soon be limited. For example, the International Finance Corporation's (IFC) exposure guidelines and the Multilateral Investment Guarantee Agency's (MIGA) ceilings on guarantees to any one country are a clear indication of this trend. It is important to seek and to find ways to remove these barriers. If necessary, increasing the capital of these institutions could be considered. In the case of MIGA, we share the concern Mr. Wolfensohn expressed in his opening address, and I think that we could even consider immediately strengthening the reserves of that agency with funds from the World Bank's surplus account. A special allocation of funds to MIGA would certainly be a catalyst for promoting investment in the private sector.

Public Budgets and Poverty Reduction

An important topic of the Development Committee meeting this year is the role of public expenditures in poverty reduction. The nature of these expenditures are a reflection of economic growth strategies. In countries where there are state-owned enterprises systematically running a deficit and other unproductive expenditures, the government's ability to design and finance effective poverty reduction programs is considerably undermined.

By contrast, many countries in our region have made considerable progress in their privatization programs. As a result, the governments of these countries no longer have to finance high public enterprise deficits and are increasing the budgetary items allocated to the social sectors. With financial and technical assistance from multilateral agencies, our countries are working to improve the design and focus of these programs.

This assistance is fundamental because, despite the region's achievements in combating inflation and economic stagnation, we are still facing very serious problems of poverty, education, and unemployment, which we must tackle and solve jointly. How successful we are in this struggle will also be a major determinant of the degree of progress we can hope to make on other fronts, including the stability of our democracies and improvements in the environment.

Development Financing

Analysis of the statistics on Bank loans and disbursements in recent years shows that they have remained relatively stagnant. This stagnation is one of the main reasons why, for some time now, the Bank has been effecting net negative transfers to borrowing countries. For example, between 1991 and 1995, in net terms, Latin America transferred some $16 billion to the Bank. While in the throes of a serious financial crisis, the region transferred over $3 billion to the Bank in fiscal 1995 alone. These figures bring some questions to mind, which I would like to share with you.

What is the approximate amount of financing required by the borrowing countries and what are the projections? In which areas can we expect large inflows of private capital, and in which areas will financing from the multilateral institutions still be needed? Is the recent stagnation in the amount of loans and disbursements due to the increasing role of private capital, to a relative reduction in the demand for multilateral funding, or to a certain inertia on the part of the Bank in responding to new funding needs? In our opinion, a careful analysis of questions such as these should be the basis for determining the Bank's new positioning in the international capital markets.

We believe that even in countries that have instituted far-reaching structural reforms, the World Bank can still play a more active role, for two main reasons. First, there are sectors, social and otherwise, which produce public goods and services—such as, justice, regulatory frameworks, and aspects related to the development of appropriate institutions—that depend essentially on public financing. Secondly, no matter how good the economic policies instituted by the governments are, the cost of domestic or bilateral borrowing for many of our countries continues to be higher than the cost of borrowing from multilateral institutions, and the terms much shorter. Lastly, the role that these institutions can play in crises, such as the one that occurred this year, merits scrutiny.

Financial Instruments of the World Bank

With regard to the financial instruments of the World Bank, I should like to mention two specific points. The first deals with the new single-currency lending program. The second is a suggestion that the Bank study the establishment of a quick-disbursing window, in order to overcome certain internal obstacles which, justifiably or not, at times delay the preparation and approval of loans.

With regard to the first point, multilateral agencies such as the World Bank can help the borrower countries by developing new financial instruments. In this connection, we applaud the launching and subsequent expansion of the single-currency lending program that the Bank has begun to offer at variable and fixed interest rates. Many Latin American countries would like to take advantage of the current economic climate to borrow primarily or exclusively in a single currency.

Nevertheless, the 50 percent limit on the total amount of a single-currency loan is unnecessarily restrictive. We consequently ask Mr. Wolfensohn to have the Bank explore the possibility of expanding the ceiling to 100 percent as soon as possible.

With regard to the second point, the financial crisis this year showed, among other things, that when the Bank wants to, it can move very quickly. For example, in late January of this year, I asked Mr. Preston to prepare an operation to support the privatization of provincial banks in Argentina. Immediately, the Latin America region got preparation of the loan under way, and in early May the Bank's Board approved the operation. Little more than three months had elapsed between our request and approval. It is my understanding that this is a record for the Bank. But we must recognize that crises arise unexpectedly and that they may be acute. Therefore, despite the very efficient work of the Bank's staff and management just mentioned, there is also a risk that in future crisis situations, the response may not be as rapid as in this instance.

Our proposal, therefore, is that serious study be given to the possibility that, for those countries with sound economic and social policies, the Bank open a quick-financing window. We feel that such a financial instrument could increase the effectiveness of the Bank's financial intermediation in times of crisis. We consider this proposal to be fully consistent with Mr. Wolfensohn's objective to eliminate all bureaucratic and legal barriers that merely delay the preparation, approval, and implementation of projects.

Distribution of the Bank's Net Earnings

The borrower countries in our region benefit to some extent from the World Bank's net earnings, essentially through interest rate waivers. The earnings are also allocated to reserves, the surplus account, and various grants. The countries of Latin America have supported a policy of sound reserves, as well as grants that have gone primarily to International Development Association (IDA) countries.

Nevertheless, we should like to note that for the borrower countries of the region proposals from management with regard to the distribution of earnings must be balanced. If the net income of the Bank were to continue at the levels of recent years, we feel that interest rate waivers could be increased in order to reduce the actual cost of borrowing to our countries.

Trends in the Argentine Economy

I will now speak briefly about the economy of Argentina. In 1995, after four years of fast-paced growth and a significant reduction in inflation, our economy entered a phase of slower growth. Indeed, while the economy expanded on an average of 7.7 percent annually between 1991 and 1994, for 1995 we are projecting an increase of 1 percent.

As is well known, this slowdown was due to the crisis sparked by the devaluation of the Mexican peso, which resulted in major losses of bank deposits and international reserves, as well as a fall in the prices of bonds and securities. Our strategy in grappling with the crisis has been essentially to deepen structural reforms. We have viewed the crisis as an opportunity to improve our strategy for growth, based primarily on development of the private sector.

First of all, in early March we announced a package of $11.4 billion, which included a large fiscal adjustment component. That adjustment meant deep cuts in public spending, including a reduction in salaries. Many of the measures required new legislation and, given the emergency situation, it was approved in short order by the legislators. Additionally, two new trust funds received substantial support from the World Bank and the Inter-American Development Bank. These funds were used to privatize many of the provincial banks and take the initial steps in financing the consolidation of the private banking system. Thus, whereas at the start of the crisis there were 205 financial institutions, by mid-September the number had fallen to 164, that is, a shrinkage of 20 percent.

This consolidation of the financial system and many other parallel efforts have meant a turnaround in projections. For example, bank deposits—which had fallen by an equivalent of $37.8 billion—rose again to some $41.6 billion. This figure is only a little lower than the deposits in the system when the crisis began. The prices of bonds and securities also recovered significantly. Lastly, Argentina has returned to international markets, securing funds on more favorable conditions than other countries affected by financial difficulties.

The crisis demonstrated how the wide-ranging structural changes introduced in recent years have considerably increased the flexibility of Argentina's economy. By way of example, in several recent months, the inflation rate was negative. There have also been major changes in relative prices for internationally traded goods. Lastly, there has been a significant adjustment in international trade flows. Even though the convertibility system for the peso that was implemented in early 1991 did not change, during the first half of this year, exports grew by 45 percent and imports fell by 4 percent. In order to achieve changes of this magnitude in international trade flows, other countries have relied on major devaluations with serious effects on inflation and steep drops in output. Given the trends in Argentina's international trade, instead of a trade deficit of $5.8 billion in 1994, projections indicate that this year we may have a surplus of some $1.5 billion to $2 billion.

The far-reaching economic changes have meant significant headway in poverty eradication but, unfortunately, the crisis has boosted unemployment to untenable levels. With regard to efforts to reduce poverty, while in 1990, 38 percent of the population was living in poverty, by 1994 the figure had fallen to 18 percent. These results were due, in addition to growth and an appreciable decrease in inflation, to the large-scale privatization operations that have already been completed. As we indicated, the privatization of deficit-running enterprises made it possible to increase social expenditures, particularly in education, which is a priority of the Government.

As part of the efforts to reduce unemployment, the Government and the legislative branch are working actively to bring even greater flexibility to employment conditions. For example, this year almost all labor contracts for small and medium enterprises have been made more flexible. Major legislation on bankruptcy and labor accidents has been passed, which will undoubtedly reduce labor costs.

In sum, although 1995 was certainly a year of slowdown in Argentina's economy, we feel that, the unemployment problem notwithstanding, the best way to overcome the crisis is to take our growth strategy farther. All these changes have made us very optimistic about the future. We are confident that 1996 will see a rebounding of the economy based primarily on the vigorous growth of overall productivity, as well as increased aggregate demand. We expect GDP growth of at least 5 percent with inflation at international levels and a considerable increase in the economy's ability to generate productive jobs.

Conclusion

I would conclude with some thoughts about efforts to reduce poverty. These efforts do not aim solely to feed, educate, and clothe our less fortunate countrymen. We would be gaining very little if the progress in these areas were not accompanied by the creation of new jobs so that people can sustain and enhance their skills and physical resources. When the social problem is seen in this perspective, everything that the World Bank Group does to improve its projects in both public and private sectors is important. It is the collective efforts of governments, private enterprises, the Bank, and countless nongovernmental organizations working on social issues that determine the extent to which the funds we administer can significantly expand the opportunities of the less fortunate. President Wolfensohn, the countries in my region are ready to work with you to make maximum progress toward our chief objective, poverty eradication.

STATEMENT BY THE GOVERNOR OF THE BANK FOR SOUTH AFRICA

Christo Ferro Liebenberg

I thank you for the opportunity to address this assembly once again on behalf of South Africa. May I first welcome Brunei Darussalam to this family as a new member. Second, may I extend my congratulations to Mr. Wolfensohn on assuming the presidency of the World Bank. We support your efforts and vision for Africa and wish you every success in your term of office. May we also extend our condolences to the family of our friend, the late Lew Preston, who so successfully guided the World Bank through a critical period in the institution's history. We also extend our condolences to the family of our colleague, the Honorable Ariston Chimbati, Minister of Finance for Zimbabwe, who passed away on Saturday.

Since the democratization of South Africa, we have adopted an economic strategy that emphasizes sustainability, monetary and fiscal discipline, value for money in government spending, and a commitment to human resource development. To date, the macroeconomic results are encouraging. Our policies have clearly not gone unnoticed, and I am proud that our Central Bank Governor, Dr. Chris Stals, is the recipient this year of *Euromoney*'s international Central Banker of the Year award.

Various initiatives are under way that are designed to increase the competitiveness of the South African economy. Our first steps have been encouraging, and, in the year to June 1995, we attracted net capital inflows of R 18.6 billion. But the future is not without enormous challenges, including large backlogs in social infrastructure, basic needs such as education, housing, and health care, the eradication of poverty, improvements in capital and labor productivity, higher savings, and institutional reform.

Regional Development

We are deeply cognizant of our role and responsibilities within the southern African region, of which we are such an integral part. We realize fully that domestic macroeconomic success will be insufficient for long-term economic development without parallel developments within the region. With the encouragement and goodwill of our neighbors, we have taken important steps to reintegrate our economy into, and to promote greater economic cooperation within, southern Africa. South Africa has become a full member of the Southern African Development Community, and we plan to conclude membership of the African Development Bank during 1995. We also have great pleasure in using this opportunity to announce that we are formalizing our membership of the English-speaking African constituency of the IMF and World Bank. We recognize that in the successful regional development of southern Africa, South Africa has a unique opportunity to contribute to the emerging growth and prosperity on our continent. This excites us, and we have committed ourselves to this vision with great enthusiasm.

International Developments

There are a number of issues of international importance that concern us. First, the multilateral debt problem. As we are all aware, this issue has assumed alarming proportions for our continent. No less than 33 of 41 severely indebted low-income countries are from the African continent, and we would like to call upon the Bretton Woods institutions and the Group of Seven countries to redouble their efforts to find a solution to this problem in a manner that is equitable and even-handed, and that provides a feasible exit strategy for the most severely indebted nations. We make this appeal because, for the first time in many years, there are encouraging political and economic signs that the African continent is on the upturn and that structural reforms are progressing briskly.

Second, IDA replenishments. We share Mr. Wolfensohn's concerns. We recognize and are thankful for the considerable efforts of the donor countries, and specifically the U.S. Government, to secure the financial resources for IDA-10 and to ensure an adequate replenishment of IDA-11. As a donor, we strongly encourage the successful outcome of these efforts. It would be a sad and indeed an unnecessary irony if, owing to a lack of resources, this aspect of the World Bank's activities were curtailed precisely at the point when there is hope for an economic and political breakthrough. Nevertheless, in southern Africa we accept that responsibility for sustainable economic growth—based on trade policies, investor-friendly policies, and sound macroeconomic principles—lies in our own hands.

Third, South Africa supports many of the new directives to stabilize international capital flows and financial markets, in particular, that the IMF develop an appropriate early-warning system.

Fourth, we fully endorse the recommendations of the Commonwealth ministers of finance and urge a redoubling of international efforts against money laundering. In line with international developments, our own systems are being improved, and we are planning to introduce strong measures to combat this evil on a regional basis also.

Conclusion

South Africa has benefited enormously from international experience. We have looked West and endeavoured, within our own circumstances, to incorporate the important lessons of fiscal and monetary prudence; we have looked East, noted the crucial role of technology, human resource development, and the role of the state in economic development; immediately north to our neighbors to focus on the developmental nature of our task; and inwardly, to remind ourselves of the enduring challenges and major social and basic needs that we confront. In fashioning a coherent policy approach which incorporates these lessons, we are building a set of macroeconomic policies revelant to our experience and circumstances. We are doing so with the enormous goodwill, cooperation, and assistance of the entire international community. In doing so, we are beginning to undergo an amazing socioeconomic transformation. We hope that you will continue to support us and walk with us as new opportunities unfold in Africa.

STATEMENT BY THE TEMPORARY ALTERNATE GOVERNOR FOR THE BANK AND THE FUND FOR CANADA

Douglas Peters

Global Economic Situation and Policy Requirements

A great deal has happened to the world economy since we met in Madrid one year ago. Not all of these developments have been positive. Exchange market volatility has forced many countries to raise interest rates above the levels desirable based on domestic economic considerations, thereby leading to slower growth. The most severe example of this, of course, was the Mexican exchange rate crisis, which spilled over to many developing and other countries. There has also been financial market volatility within the European Union, and Canada has not been exempt.

At the same time, we must not lose sight of some positive aspects of the current situation. Inflationary pressures remain minimal in most industrial countries, and progress has been made in reducing fiscal deficits. At the same time, however, unemployment remains uncomfortably high in many countries. These developments have in turn been reflected in international financial markets: long-term interest rates have declined over the last six months, and the decline of the U.S. dollar since the beginning of the year has been reversed but the dollar has not returned to previous levels.

How can we best respond to exchange market instability and high levels of unemployment and build on the achievements of low inflation and deficit reduction? Exchange market instability, although sometimes having a life of its own, does develop from market concerns about the stance of policies in the major industrial countries. This suggests that one way of responding to turmoil is to redouble our efforts at pursuing sound policies and establishing credibility. Employment policies must concentrate on spending smarter at a time of limited resources. In addition, structural policies are needed to improve employment potential and to improve our economies' growth potential. The growing international consensus on this policy prescription was embodied last year in the Interim Committee's Madrid Declaration.

Balance of payments problems, particularly current accounts that are consistently out of balance, add to exchange market instability. However, we must also acknowledge that while a collective commitment to pursuing sound policies may reduce instability, it will not guarantee the absence of problems. Instability in foreign exchange markets remains a threat to developed and developing countries alike. Developments over the last year also indicate the need for an international financial structure to help in providing a smoothly functioning international economic and financial system.

Canada's Policy Approach

A policy framework that includes sound fiscal and monetary policies and structural reforms summarizes the approach we have followed in Canada.

Our economic priorities are to succeed in putting Canada's public finances on a sustainable footing while encouraging growth and employment. Merely setting long-term goals as some suggest gives no assurance of achieving them. What we have done to achieve our deficit-reduction goal has been to set rolling two-year deficit targets, on the way to a balanced budget, and then to ensure that we achieve them.

We are taking a similar approach to maintaining low inflation. The Government and the Bank of Canada have jointly established targets of 1–3 percent for inflation during 1995–98 and have geared monetary policy to ensuring that inflation does not leave this range.

We are also making progress in structural reform. We have reviewed all spending programs, asking the following questions. Should the Government be doing this? Is it a priority? Can we afford it? As a result, we have dramatically reduced many programs, including subsidies to business, and are taking action on labor market and other major reforms. These reviews are continuing.

Our decisive actions, and the difficult choices we have made, are paying off and will continue to do so. They will pay even greater dividends once the uncertainty associated with the Québec referendum is behind us.

Institutional Reform

I will conclude with a few remarks about institutional reform. Last April, at our meeting in Washington, Canada spoke at some length about this subject and about Canada's ambitions for the economic summit of the Group of Seven in Halifax.

The Halifax summit has widely been seen as a constructive exercise. It provided a useful forum in which to re-examine the current structures of international cooperation and allowed Canada and its Group of Seven partners to put forward a number of important reform initiatives. But Canada's interest in reform should not be interpreted as dissatisfaction with the way the IMF and IBRD have discharged their mandates. Quite the contrary: widespread support was shown at Halifax for the work of the Bretton Woods institutions. Generally speaking, there was broad agreement that the IMF and multilateral development banks should continue to play an important role in ensuring global economic stability and international well-being. Nevertheless, there are clearly areas where improvements are both possible and desirable.

In the context of the IMF, Canada and its summit partners are looking for reforms in the following key areas:

- Strengthening the IMF's surveillance of national policies and financial market developments and promoting fuller disclosure of this information to market participants. Such measures will better help to identify problems before they reach crisis proportions.
- Ensuring that procedures are in place to shorten the time that is needed to respond to financial crises when they do occur.

- Doubling the resources currently available under the IMF's General Arrangements to Borrow to ensure that the Fund has adequate liquidity to meet these crises.
- Ensuring that the Fund has sufficient resources to continue to finance the enhanced structural adjustment facility for the benefit of the IMF's poorest members.

While this is an ambitious list, the response to date has been extremely encouraging. These reform initiatives have struck a responsive chord with other shareholder governments. In fact, much of this agenda was at the core of the recent discussions in the Interim Committee.

Let me turn now to key issues of importance to Canada for the World Bank and the regional development banks. In these constrained times, multilateral institutions, like the governments that are their members, must all learn to do more with less. In this respect, there are four key areas where I believe room for improvement exists.

First, the multilateral banks should take further steps to consolidate their budgets and to streamline their operations. In this respect, the actions of the World Bank in reducing its administrative budget this year and next should be used as a model for similar streamlining in the regional development banks.

Second, the growing diversity of the recipient countries requires an increasingly differentiated response from the multilateral banks. Wherever possible, the market should be the dominant source of funding, especially for infrastructure projects. Scarce concessional resources should be targeted to the poorest countries, particularly those in sub-Saharan Africa and those that have endured severe natural disasters.

Third, resource allocation should be more efficient. Inefficiencies undermine the ability of donors and recipients alike to make progress in poverty reduction. In particular, excessive military expenditures, particularly at the expense of social sector spending, are no longer acceptable. Multilateral institutions must directly tie their lending programs to commitments from recipient countries to reduce unproductive expenditures.

Fourth, overlap and duplication among the multilateral development banks must be reduced.

Conclusion

Let me re-emphasize the critical role that the IMF and IBRD must continue to play in the smooth operation of the international monetary system and in assisting the development process. The recent discussions in the Interim and Development Committees have helped define these roles. I have every confidence that, together, we can ensure that the Bretton Woods institutions will continue to have the tools to respond to their future challenges with flexibility and imagination.