DISCUSSION OF POLICY AT FIFTH JOINT SESSION[1]

STATEMENT BY THE GOVERNOR OF THE BANK FOR THE MARSHALL ISLANDS

Ruben R. Zackhras

I am most pleased and honored to be able to address these Fiftieth Annual Meetings of the Boards of Governors of the Bank and the Fund on behalf of Pacific constituency members: the Federated States of Micronesia; Kiribati; the Marshall Islands; the Solomon Islands; Vanuatu; and Western Samoa. First of all, on behalf of our constituency, I would like to welcome Brunei Darussalam as the newest member of the Bank and the Fund. I also would like to congratulate Mr. James Wolfensohn on his appointment as the new President of the World Bank Group and wish him well in his challenging task.

We welcome the new initiatives taken by the World Bank and the Fund to deal with the monetary, economic, and social challenges facing the world economy today. We support the Fund's proposal to increase its liquidity by doubling the quotas and urge the Executive Board to conclude the Eleventh General Review at an early date. It is desirable, however, that the quota increase be allocated equiproportionately to all members. While the quota increase should be the main source of the Fund's resources, we encourage the mobilization of supplementary resources through expanded borrowing arrangements. We welcome the emerging consensus to convert the enhanced structural adjustment facility (ESAF) into a permanent arrangement and support the option of selling part of the Fund's gold holdings to finance the subsidies for ESAF lending in view of the decline in the real level of aid.

We support the Fund's proposal to improve its surveillance activities by obtaining reliable and timely data. However, we would like the Fund to take note of the need for technical assistance in the case of many developing countries, especially the small Pacific island countries which do not, at present, have the necessary capabilities to meet these reporting requirements.

Turning now to the World Bank, we welcome President Wolfensohn's expression of his desire to lead the Bank in a new direction in an attempt

[1]October 12, 1995.

to alleviate poverty, protect the environment, and promote greater social justice. The role of the International Development Association (IDA) in assisting the development of developing island economies and of the least developed countries needs to be reemphasized. We therefore urge the donor countries to conclude the IDA-11 Replenishment negotiations early and to meet their commitments under IDA-10 on a timely basis.

We welcome the statement made by President Wolfensohn in his most inspiring opening address Tuesday, about the need for protection of the fragile environment of the Pacific islands. Our respective governments have already taken some measures towards environmental conservation. However, this is an area where further assistance should be provided by the Bank.

Our economies are relatively small and are geographically isolated from the main centers of world trade. This makes it extremely difficult for us to be fully integrated into the world economy and to take full advantage of the expansion of global trade. We recognize that, in order to obtain the maximum benefit from the positive global developments that are taking place now, we have to strive hard to enhance the productive utilization of our limited resources and to create the necessary macroeconomic framework that would assist the efficient utilization of our resources. Our constituency members have taken note of the Fund and Bank advice on bringing about macroeconomic adjustment. They remain committed to implementing these policies. However, our efforts will require additional technical assistance in view of our limited capabilities to effectively implement reforms.

We support the strengthening of the private sector and we are committed to taking the necessary measures to create an environment conducive to the growth of this important sector. These include measures designed to promote both domestic and foreign investment.

This year's meeting of the Pacific Forum leaders mandated a careful study of the implications on the future growth prospects of our region, of the Uruguay Round, and the formation of the World Trade Organization as well as the decision by the Asia Pacific Economic Cooperation (APEC) Group to reduce tariffs. The study will also examine the actions that our respective countries should implement in order to take advantage of the benefits that would result from these important developments. Securing higher returns on our fisheries and forestry resources is one of our prime concerns. In this respect, a draft regional code of conduct on logging has been adopted. In the meantime, efforts are continuing on regional management of fisheries, enhancing multilateral fisheries access arrangements, and developing a regional vessel-monitoring system.

A major constraint limiting economic development in our countries continues to be the problem of sea and air transport. Intensive efforts are under way, at both regional and subregional levels, to rationalize the use of resources and to improve the management and performance of the airline industry to enhance its contribution towards national economic development and regional social needs. Similar efforts are being pursued in shipping and tourism.

We are conscious that our economic development rests upon our own national efforts and regional cooperation. However, we recognize the fact that our unique problems and development needs cannot be fully addressed without the support of our development partners. However, we would be very concerned if the level of assistance to the region were to decline below its present level. We have noted the expedient response of the Fund and the Bank to requests for assistance from other countries in our region. Some of our member countries are yet to receive such assistance. It is important, therefore, for the Fund and the Bank to maintain their present levels of assistance to the region.

In this regard, I would like to take this opportunity to express the appreciation of our constituency members for the excellent support provided by the Pacific Financial and Technical Assistance Center based in Fiji. We understand that discussions are under way to provide additional support for the center. We urge the donors to continue to support this important project.

STATEMENT BY THE GOVERNOR OF THE FUND FOR THE ISLAMIC STATE OF AFGHANISTAN

Abdul Qader Fitrat

On behalf of my delegation and my country, I would like to wholeheartedly extend my deep appreciation and thanks to you, and through you, to all World Bank and International Monetary Fund staff for giving me the opportunity to speak on this occasion.

Likewise, I would like to join my fellow Governors in sincerely thanking you for the warm welcome and excellent arrangements made by the World Bank and IMF staffs in honor of delegates attending the Fiftieth Annual Meetings of the World Bank and the International Monetary Fund in the beautiful and historic city of Washington.

In a world divided into haves and have-nots—and in a world divided into technologically advanced, prosperous, and wealthy nations, and poverty-ridden, hungry, and poor nations, unaware of life's beauties, entertainments, and joys—some nations proud of their achievements not only don't have the slightest sympathy, care, and sense of pity for their brethren and fellow human beings, but also target them inhumanely with their iron hands.

A country like Afghanistan, which just recently undid the state of terror, killing, mass murdering, and devastation imposed by a great world power, falls victim to another neighboring power, which once embraced it in the path to self-determination, freedom, and democracy.

Since 1992, when the cold war finally ended with the collapse of the communist regime in Afghanistan, there was a great sense of optimism that the era of animosity and conflict would give way to a new era of understanding, friendship, and cooperation among our nations in the region. In the light of this change it was perceived that the trade routes would be open for all, that unfair restrictions on bilateral and multilateral trade would disappear altogether, that the siege of cities and territories caused by the war—particularly the siege of Kabul city—would be eased or abandoned, that trade would be expanded throughout the region, that high economic growth would be achieved, and that equal participation of women would be ensured.

Unfortunately, none of these hopes and optimism were translated into practical and sensible realities. Contrary to those ideals, the relations between our countries have turned sour as more barriers have been imposed on bilateral trade, particularly after one of our neighbors withdrew all facilities on Afghan transit trade agreed upon in 1965. The siege of Kabul city has been tightened; the role of women has been further marginalized by closing girls' schools and colleges, and women have been banned from workplaces outside their homes by a mysterious and fanatic group called Taleban, supported by one of our neighboring countries. This group has ordered Afghan women to stay indoors and avoid working in offices and teaching in schools or colleges in the territories controlled by them, particularly in Herat and Kandahar cities. Furthermore, because of the emergence of this group and other radical extremists, the southern and southwestern parts of our country have turned out to be used for opium cultivation and other narcotics. All these events prove that war and conflict bring nothing but disease, drugs, and disaster, which not only devastate the warring elements, but also engulf the nations that one way or another are involved in those conflicts.

Despite all these problems caused by foreign interference in our country, the Islamic State of Afghanistan is struggling hard to alleviate the pain of our nation by introducing programs which, if implemented, will lead to long-term stability, self-reliance, and economic growth. For instance, in order to reduce the budget deficit gap, the Government has undertaken drastic measures to reduce spending by eliminating extravagant expenditures in some institutions, privatizing government-owned subsidized companies, and cutting unnecessary government organizations.

Further, the Government has set up a commission to review the prevailing tax structures, find new ways of taxation, and increase taxes on a number of luxury commodities. In addition, Usher and Zakah, which are two broad types of Islamic taxes levied on agricultural commodities and livestock, will be introduced in areas controlled by the Government, taking into consideration the people's sentiments and financial abilities. The Government also has a plan to retake control and ownership of minerals such as lapis lazuli, emeralds, salt, coal, copper, and natural gas, which are currently utilized by local commanders and warlords. Of particular interest are the new economic policies aimed at liberalizing the economy by easing the previously existing system of tough government control. As an example, the Government recently amended the country's investment law, which allows 100 percent foreign investment and domestic private investment to compete with the public sector in the market. In the past, domestic private sector and foreign investors were supposed to invest only up to, and not more than, 49 percent of the company's total share. Meanwhile, the banking law, which previously did not allow private sector and foreign banks to compete with local government banks, was amended in 1994 to permit both to enter our markets.

If these measures are successfully implemented, the budget deficit gap will narrow substantially, which in turn will result in a slowdown in the current multi-digit rate of inflation in the country.

For more than one and a half decades, Afghanistan has not been able to receive any aid from either the IMF or the World Bank. To me, it is astonishing that the world assisted us during the war, but abandoned us during the peace. The amount allocated to finance the war and destruction in my country both by regional and international powers is far more than their donations to reconstruct this war-ravaged nation. For the past couple of years there has been an unexpected silence and neglect on the part of the international community in general, the IMF, the World Bank, and other multilateral financial institutions, in particular, regarding our country. This neglect has caused insurmountable pain and difficulty for different segments of the population. Children are the most likely and vulnerable victims of this neglect by the international community. For many of our children, basic staple foods, clean drinking water, electricity, education, and health care are just dreams.

The IMF and the World Bank have played a significant role in reconstruction and development around the world ever since they came into existence. We hope that Afghanistan, as a longtime member of the IMF and the World Bank, will enjoy the required aid to reconstruct its economy. Currently, the Government is working to restore electricity in Kabul city. However, the complete destruction of two out of four substations in the city has impeded the timely completion of the project, hence forcing the innocent citizens of Kabul to live another cold winter without electricity.

In addition, the Government has started reconstruction of 210 factories in and around Kabul such as flour mills, textile mills, shoe factories, and cold drinks factories. Rebuilding these factories will provide thousands of jobs both in the public and private sectors. Further, it will reduce the country's ever-increasing volume of imports, which is a step forward towards self-reliance and improving the balance of payments deficit. However, the shortage of investment funds and equipment has made these objectives impossible to attain, at least in the short run.

As far as the telecommunications sector is concerned, ever since the destruction of our telecommunications equipment by rocket fire in 1992, there has been virtually no telecommunications system working in the country. The telecommunications system between different cities, as well as with the outside world, has been cut off, with the result that both private and government business organizations, as well as the public, face tremendous hardships dealing with their routine business. Afghanistan possesses a strategic location, stretching from the Islamic Republic of Iran in the west to China in the east. It can be a desirable superhighway and the shortest land route for trade and commerce between South Asia and the newly independent Central Asian Republics, Russia, and Eastern Europe. As a matter of fact, reconstruction and improvement of our highways would ensure the smooth transport of goods and commodities across the region, providing the opportunity for both the local and regional economies to flourish.

These are some basic and fundamental infrastructural needs of our nation that we have been unable to achieve during the past one and a half decades of devastating war. It would therefore be our desire to see a new initiative by the IMF and the World Bank towards financing these projects, and other new priorities put forward by our Government which will address the most urgent technological needs of our society in its journey towards needs fulfillment, gender equity, liberalization of the economy, and economic prosperity.

To conclude, once again I would like to give my sincere appreciation to both Mr. Wolfensohn and Mr. Camdessus for their excellent leadership, and to all IMF and World Bank staff for their overwhelming cooperation and support.

Statement by the Governor of the Fund for Armenia

Hrant A. Bagratian

The world has become accustomed to images of disaster and deprivation in Armenia. But while the world's attention has been diverted to conflict and blockade, earthquake and energy crises, the independent Republic of Armenia has been quietly recovering and developing into a modern progressive economy.

We have defeated inflation and restored economic growth, our exchange rate is stable, our government budget is under control, and our foreign exchange reserves are rising. Armenia is now an economy ripe with opportunities for trade and for investment, ready to realize its considerable potential to the fullest extent.

Armenia is at the crossroads between Europe and Central Asia, between the former Soviet Union and the Middle East. With our traditions of education and enterprise, with our knowledge of the cultures and languages of our neighbors, we are poised to become a provider of high-tech products and services from software to finance.

We are fully aware that we can only achieve these goals through openness. We are undertaking a radical liberalization of our economy. Privatization is well under way, our trade regime is free of restrictions, our currency is convertible. Our private sector is subject to minimal regulation and our door is wide open to foreign investment. All this is taking place in the context of political stability and continuity rare in our part of the world.

The legacy of the Soviet Union has left us with massive capital needs to rehabilitate and modernize our economy. We are facing up to the challenge of transforming the rigid and outmoded system we have inherited into a dynamic and competitive one capable of responding to the changing demands of the marketplace in the global economy.

We have begun to receive substantial financial and technical assistance from the international community to underpin this transformation and have enjoyed a very productive relationship with multilateral and bilateral donors. The advice and funding we receive are playing a very critical role in the recovery and growth of our economy and integration of our society to the world at large.

This aid will remain important for our economic development for a few years to come. However, we see aid very much as a transitional phenomenon to help us to recover the living standards of our people and to improve our country's attractiveness to private capital.

We seek to accelerate investment in our economy and achieve higher levels of growth. Meanwhile, we hope the international financial organizations would explore new instruments of assistance to the transition economies, which would provide concessionary bridge finance during this period of economic transition.

We are fully confident that the world will learn to see us as we see ourselves and will see the enormous opportunities in investment in a region rich with potential both natural and human. And Armenia will be at the center of this recovery of the Caucasus region from collapse and conflict and its emergence as a dynamic and interdependent regional economy. We are reaching out to our neighbors to join in realizing this ambition, and I invite you all to witness and participate in this phenomenon.

Statement by the Governor of the Bank for Croatia

Bozo Prka

It is a great pleasure indeed to be able to address such a prominent group of experts from all over the world.

New Challenges for International Financial Institutions

Today, international financial institutions are facing new challenges and are thinking about new strategies in order to adapt themselves to the new global environment and to increase all areas of their operations. The Fiftieth Annual Meetings of the Bretton Woods institutions are not only a time for celebration, but also a time to critically assess past achievements, and possible mistakes, and boldly look ahead to the future.

In addition to my congratulations on this important anniversary, I would like to congratulate Mr. James Wolfensohn on his appointment as the new President of the World Bank and to wish him all the best in his new position. The World Bank is trying to pursue more cost-effective, flexible lending due to the changing needs of its members. Of course, its main activity, lending on the world capital markets and to its member countries, has not changed. World Bank activities are far too large to be even mentioned in a short address. But, two points deserve special attention. First, lending for education and health has tripled over the last three years. Croatia welcomes this change since we are fully aware of the long-term importance of these areas for the well-being of the population and for sustained and sound economic growth. One cannot but recall the old Chinese saying:

If you think a year ahead, sow a seed;

If you think ten years ahead, plant a tree;

If you think a hundred years ahead, educate people.

The second point is lending for environmental protection. Though developing countries and, especially, very poor countries may tend to think of the environment as a superior good, which one consumes only at high levels of income, in our view, environmental protection is a wise, long-term orientation.

Finally, recent internal changes in the World Bank, especially orientation toward a leaner and more cost-effective organization (by introducing techniques to control costs, removing layers of management structures, and so on) should be particularly praised, as large organizations may have the image associated with careless spending and bureaucratic inertia.

The International Monetary Fund faces new challenges as well. Its general aim, which is to be prepared for the "crises of the twenty-first century," is a tremendous task indeed. In this connection, it intends to strengthen its surveillance so as to prevent future crises and, if they occur, be strengthened financially to intervene in a more efficient way. This basically means increasing its resources through the possible Eleventh General Review of Quotas and proposals for doubling the General Arrangements to Borrow. Globalization of the world financial markets and sophistication of financial instruments (like the much talked about derivatives) point to the fact that crises in one country can very speedily spill over to other countries as well. So, for a country, and especially for a small open economy like Croatia, it is not enough to pursue "sound policies at home," but one has to watch world developments as well. In that regard, Croatia especially welcomes the orientation toward greater transparency between member countries. We have always regarded this as an important issue.

Six Years of Transition Experience and What Lies Ahead

It can be stressed that, more than any other event, the fall of the Berlin wall six years ago symbolized the beginning of the transformation of centrally planned economies to market-oriented ones. One lesson that we have all learned is that transition is a multifaceted phenomenon that encompasses not only fundamental economic changes, but complex structural, behavioral, and institutional changes. And as we have seen from the experience of the disintegration of all post-Versailles federations—the Soviet Union, Czechoslovakia, and Yugoslavia—the fall of socialism at the same time initiated the process of nation-building as twenty-two new countries emerged.

The complexity of the transition process can be seen in a new branch of economics—economics of transition—which has emerged and in an entirely new international financial institution, the European Bank for Reconstruction and Development (EBRD), which was created to deal with the phenomenon. Even existing institutions created new facilities for transition (systemic transformation facility), proving that transition is a phenomenon without historical precedent.

But, after the appearance of numerous books on the subject, countless conferences, and new journals, one can say that still no definite analytical framework has been agreed upon. In spite of the lack of simple answers, one common conclusion that can be drawn is that macroeconomic stabilization is crucial for the success of transition. Almost all countries started transition with various degrees of macroeconomic imbalance. The first years were marked with a tremendous fall in output never before experienced in modern history, high inflation, which sometimes turned to hyperinflation, and the collapse of external trade, especially in the former Council for Mutual Economic Assistance.

Macroeconomic stabilization is a necessary but not sufficient condition for the success of transition. Countries must immediately embark on microeconomic reforms, impose hard budget constraints, trim down or close large loss makers, and start building sound finance.

One big lesson that can be learned from existing experience is that transition is not a one time shot, not even a short-run effort, but a lengthy battle, a marathon for which one needs to be well prepared both psychologically and physically. As transition has no alternative (but to go back to the old system) on the way to a free-market economy, it is better to be ready for it. It is true that formidable obstacles lie ahead. But, it is equally true that those reforms will be rewarded in the future with the increased well-being of the population within the global world economy.

The Croatian Economy and Its Relations with the IMF and the World Bank

Croatia is a new, sovereign economy that gained monetary independence only four years ago, and it is essential to point out that monetary independence was a necessary precondition for warranted transformations in the Croatian economy. Reforms, as in other transition economies, are needed to speed up economic growth and promote prosperity. They are not possible without a country: first, introducing its own currency; second, stabilizing the economy; and third, implementing financial reforms and microeconomic restructuring in the real sector.

Some of Croatia’s problems are common to other transition economies, and some are country-specific. A common feature is that it is one of many countries that emerged after the disintegration of former states. The Croatian transition process is marked by some very specific features. First, its economy was more market oriented than that of other former socialist and centrally planned economies. Second, disintegration was, unfortunately, linked to the war and the occupation of part of Croatia’s territory, which has created, among other things, a tremendous supply shock by destroying production capacities, cutting main transportation lines, and seriously increasing the noncommercial risk for foreign investments in the country. Third, it achieved macroeconomic stabilization without any external support, but by relying on its own resources.

Croatia embarked on a stabilization program in October 1993. Today we can proudly say that we have a documented record of two years of price stability, that is, negative inflation in 1994 (minus 3 percent) and expected inflation no higher than 2–4 percent in 1995. This fact reflects a high degree of macroeconomic stability in the country. In the meantime, international reserves have increased from zero at the moment of monetary independence to almost $2 billion by end-September 1995.

We consider the continuation of the lengthy and difficult process of regulating external debt (complicated due to the disintegration of the former Yugoslavia) a big success as well. By mid-1995, Croatia's external debt was about $3.6 billion (including interest in arrears, but without the so-called unallocated debt of the former Yugoslavia to commercial banks). This is not considered excessive as it represents less than 25 percent of its GDP. By mid-1995, total arrears (principal and interest) were about $1.2 billion. Croatia is current on its debt-service payments to international financial institutions.

One should note that an agreement with Paris Club countries was reached in March 1995, and bilateral agreements with member countries of the Paris Club will be signed very soon. It is expected that an agreement with the London Club commercial banks will be reached soon.

Croatia's relations with both the IMF and the World Bank can be labeled as very good. Croatia has both stand-by and systemic transformation facility arrangements with the IMF, which means access to 75 percent of quota until end-1995. It must be stressed that Croatia has benefited from IMF technical assistance in the past. We have received knowledgeable recommendations from the Fiscal Affairs, Statistics, and Monetary and Exchange Affairs Departments during more than ten missions. Croatia has benefited from educational facilities at the Fund, both in Washington, D.C., at the IMF Institute, and in Austria at the Joint Vienna Institute.

Lately, Croatia has received loans from the World Bank as well. They include the Emergency Reconstruction Loan in 1994 and Health Project and Highway Sector Project loans approved by the World Bank Board at the beginning of 1995. We have to mention the Istria Water Supply Loan approved when Croatia was part of the former Yugoslavia. In addition, relations with the World Bank are expected to improve in the future, as we will explain briefly.

What deserves special attention in the future road to a market economy? First, after price stability has been achieved, the main goal is to keep inflation low. The inflation target for 1995 is 2–4 percent. To achieve this range in the medium term, financial markets must be developed and microeconomic restructuring implemented. For the time being, there are not enough securities outstanding to conduct open market operations, that is, indirect monetary policy. It is expected that the Government will start issuing short-term securities quite soon. Macroeconomic stabilization is needed in the long run. We highly regard the role of the Fund in helping us to maintain a stable framework, and we will be commencing negotiations with the Fund on further relations immediately, as the present program will expire soon.

Second, the rehabilitation of banks is essential for further improvement in monetary policy and the financial sector at large, as large banks are burdened with the consequences of previous bad loans. Since independence, the Croatian Government has recapitalized banks, that is, has undertaken a so-called linear rehabilitation of the banking sector. By the end of 1994, more than 40 percent of banks' total assets were claims on the central Government (public debt). Part of the remaining banks' assets will be classified as nonperforming loans. Therefore, some banks are faced with severe liquidity and solvency problems. But, bank rehabilitation cannot be successful without the restructuring of large loss-making state-controlled enterprises. They must be streamlined and exposed to market rules. Croatia is closely cooperating with the World Bank on a possible enterprise and finance sector adjustment loan. We expect cooperation in the public sector in general (public sector adjustment loan) with an emphasis on the reform of the pension and health systems. Numerous missions are exploring the possibility of agriculture assistance (agriculture sector adjustment loan) and assistance in other areas of the economy. Thus, Croatia is looking forward to long-term cooperation with the World Bank on financial support for structural reforms and on its development path in general.

Third, further reforms, aimed at changing the behavior of the economy by imposing hard budget constraints (increasing financial discipline) and optimizing resource allocation, are urgent. To achieve this goal, organizing an efficient payments system, which is necessary for good financial intermediation, is a prerequisite. Rules for exit out of the market, or bankruptcy procedures, must be simplified and the process speeded up. In this area we will have to rely on our determination and will to achieve the final goal of sustained and sound growth. We are aware of possible mistakes, but as has been said before: "The only people who never fail are those who never try."

Statement by the Alternate Governor of the Bank and the Fund for Brunei Darussalam

Dato Ahmad Wally Skinner

Mr. Chairman, at this outset, I would like to congratulate you on your assumption to the Chair of these Meetings. It is with great pleasure that I also congratulate Mr. James Wolfensohn on his appointment as the President of the World Bank Group.

I am extremely privileged and honored to be here today on this auspicious occasion to address the Annual Meetings of the Boards of Governors of the World Bank Group and the International Monetary Fund for the first time. Just two days ago, Brunei Darussalam signed the Articles of Agreement and became a member of the Bretton Woods institutions.

I take this opportunity to express my deepest appreciation to the Chairman, the Managing Director of the Fund, the President of the Bank and to fellow Governors for their warmest welcome extended to Brunei Darussalam on the occasion of the admission as a member. I would also like to thank members of the staff of the Fund and the Bank for their expeditious manner and professionalism to make this moment possible.

Brunei Darussalam is extremely happy to join the fold of the international financial community and looks forward to playing an active role in fulfilling the primary objectives on which the Bretton Woods institutions were established—objectives aimed at safeguarding financial stability and providing a framework for economic cooperation that served to underpin a remarkable period of growth and prosperity. We hope to work in close collaboration and to cooperate with members and the international financial institutions to strive for sustainability, growth, and equity.

The Chairman's appraisal of the world economic outlook underlined the need for prudent budgetary expenditure, to implement macroeconomic and structural policies, and to adopt appropriate banking and financial regulations. Needless to say, it is imperative each country must individually address its macroeconomic problems, analyze them, and introduce correct and prudent fiscal and monetary policies to promote sustainable growth, stability, and employment.

In this connection, I would like to say a few words about the economy of Brunei Darussalam. The economy is heavily dependent on nonrenewable oil and gas resources. About 50 percent of the total workforce of about 90,000 are employed in the public service. The non-oil economy is driven by government expenditure and capital investment in infrastructure essential amenities and social services. Population growth is approximately 2.8 percent per annum. It is a classical example of the "Dutch disease" whereby the per capita income has reached a high threshold which itself constrains the development of manufacturing industries.

Realizing the urgency to diversify the economy, the Government has embarked on programs of economic diversification based on the productive development of our other resources and utilization of our skilled human resources. To facilitate economic development investment in infrastructure, roads were built, telecommunication lines were laid, education and health services were provided, and the bureaucracy was restructured.

The expenditure for infrastructural development and the provision of social services were totally based on domestic financing without resorting to foreign borrowing. This is possible, much less because of abundant resources, but more due to prudent management of our monetary resources through sound fiscal and monetary policies and careful budgetary control. A balanced budget remains our main goal.

Surveillance over the international monetary system remains the core attention of the Fund. Effectiveness of this surveillance depends very much on the willingness and capabilities to cooperate fully with staff of the Fund. Quality, timely, and comprehensive data are essential for decision making by both the individual country and the Fund. It is in this area that Brunei Darussalam will be requesting the assistance from the staff of the Fund to develop an effective functioning system of data collection. I am encouraged that this assistance will be readily available.

Strengthening surveillance and the creation of an early warning mechanism will allow the Fund to respond quickly to avoid the destabilization of the international monetary system. We can draw lessons from the Mexican crisis.

The enhanced structural adjustment facility (ESAF) has proved useful to assist poorer countries. Its continuation must be ensured and improvement to it is essential in order that the ESAF will effectively address the financial problems confronting poorer countries. However, the ESAF should not be seen as the solution of the last resort. Problem countries must first undertake to resolve their problems by themselves.

I draw encouragement from the statement by the President of the World Bank Group at the opening ceremony. His call for a global partnership should be given serious consideration in order to meet changing conditions and new challenges. Brunei Darussalam supports changes that are self-supporting as well as contributing to reduce general world poverty.

STATEMENT ON BEHALF OF THE GOVERNOR OF THE BANK FOR AUSTRIA

Andreas Staribacher[1]

I would like to join others in welcoming the new President of the World Bank, Mr. Wolfensohn, who has been confronted with an impressive agenda right from the start last June.

Since we met last year in Madrid, the global economic development has, by and large, continued on a positive path. In some major economies, the cycle appears to be at a mature stage, and inflationary dangers do not appear to be imminent. In most Western European countries, economic activity started to pick up in late 1993. Today, although a slowing of the trend is noticeable, I share the view that this slowdown does not yet warrant macroeconomic policy action to stimulate the economy. Policies need rather to be

[1]Mr. Staribacher did not attend the Annual Meetings; Mr. Hans-Dietmar Schweisgut, Alternate Governor of the Bank and Mr. Harald Sita, Temporary Alternate Governor of the Bank and the Fund, attended for Austria.

geared towards ensuring low real interest rates, thus generating a virtuous cycle of high investment activity and reduced pressures on public budgets.

Structural reforms remain essential to eliminate weaknesses in product and labor markets, welfare systems, and ensuing high public deficits, and this applies not exclusively to developing or transition countries. It must be remembered, of course, that the meaning of the term “structural reforms” has acquired a dynamism of its own over the last years. In many instances “structural reform” means that regulations should be adjusted such that market flexibility is promoted. In others, those entitlements may need to be abrogated. And lastly, it is sometimes used as a “weasel word,” as my compatriot, the eminent economist Fritz Machlup has stated, meaning that politicians engage in unspecified “other” policies and call them “structural,” when the usual set of policies has proven to be ineffective.

While Western European growth is on a steady path, the countries in transition have made considerable progress on their way towards market economies. The most advanced ones—as different as their particular situation may be—already have access to international private capital markets, a strong sign of normalization. Other countries in Eastern Europe still have to see their reform attempts bear fruit, and some countries still have the bulk of required reforms ahead of them.

A case apart is the area of the former Republic of Yugoslavia. While Slovenia and, to a lesser extent, Croatia, are on their way towards market economies, Serbia and Macedonia still have a long way to go. Especially tragic is the case of Bosnia where the international community will be called upon to help restore, after peace has finally arrived, the basic fabric of society—beyond the material infrastructure. Austria is ready to join a coordinated comprehensive international effort in this regard. Already in the past years, the Austrian people have accepted a more than proportional share in alleviating the most basic needs of thousands of refugees.

Developing countries outside of Europe can expect continued strong growth rates of on average 6 percent in 1995/96. “Contagion” effects of the Mexican crisis do not appear to have had any long-lasting consequences on markets. It remains to be seen, however, if long-run confidence effects vis-à-vis emerging markets might not become noticeable after all in due time.

Austria’s GDP growth performance is expected to slow down a bit from an annual rate of 2.4 percent in 1995 to 2.0 percent in 1996. Growth dampening factors are the effects of recent exchange rate shifts, and the demand effects of a restrictive budgetary stance in most European countries in order to comply with the Maastricht criteria. The Government remains committed to a budget consolidation in accordance with a medium-term program to reduce the budget deficit below 3 percent of GDP in 1997. Growth enhancing factors are high private investment and export expectations, especially towards Eastern Europe. Inflation will remain at a low level (2.3 percent in 1995, 2.2 percent in 1996), in line with other low-inflation countries of

Europe. The unemployment rate will rise slightly to 4.7 percent in 1996, still low by international standards.

At present, a source of some concern is the Austrian current account balance, which has deteriorated significantly during the current year (the deficit amounts to nearly 1.75 percent of GDP), but is expected to improve during 1996. The main reason for this deterioration lies in a 50 percent decline in the traditional surplus in the tourism balance. However, falling interest rates, the recovery of the U.S. dollar, and increasing exports give reasonable hope that growth will persist despite budgetary pressures and foreign trade problems.

Turning to multilateral issues, I would like to recall that Austria has always supported the concept to equip the International Monetary Fund with adequate financial resources and have the IMF financed in its normal operations primarily through quotas. With this in mind, we favor a capital increase in the framework of the ongoing general review of quotas.

However, the recent Mexican crisis has demonstrated the need for the Fund to have access, in times of emergency, to financial means of extraordinary magnitude in addition to its normal resources. There are thus good reasons for agreeing with some of the conclusions in the Halifax communiqué. The proposed General Arrangements to Borrow (GAB) enlargement aims at bringing it to a volume more consistent with the changes in the world economy since the instrument was originally established. The means by which one should take into account the new realities of countries' financial strength and thus possibly their responsibility for risks in the global system remain an open question.

As one of the potential candidates for participation in the GAB enlargement, Austria takes it for granted that all participants will be treated according to the principle of equal rights and responsibilities and, in particular, that no distinction will be made with respect to new and old members. Unfortunately, certain provisions of the Group of Ten proposal seem to go in the direction of an asymmetrical arrangement, implying tougher rules and less voice for non-Group of Ten members in the decision-making process. These issues need further clarification, but we will also continue to study thoroughly the alternative proposal made by the Fund management for funding additional lines of credit, one of whose attractive features is that it is equitable. At this point, we can only say that we are open-minded, and will approach all options in a constructive manner.

Almost fifteen years after the debt crisis broke out, we are for the first time confronted with a proposal for global debt treatment coming from the World Bank. We welcome the initiative for a comprehensive concerted approach, since Austria always insisted on debt solutions involving all players, and taking into account the reimbursement capacity of the debtor countries.

The timely servicing of debts, especially those to international financial institutions, is, in my view, the best possible strategy for a stable integration into the world economy, even if this may imply sustained adjustment efforts over many years. Before making judgments on the merits or entering into negotiations of innovative approaches, there are a number of issues to be resolved and clarified. First and foremost, we will need further clarification on the funding of new schemes, on their implications for other flows of resources to the low-income countries, and on the prospects for achieving sustained development in the countries which would benefit from the scheme. We also need to clarify how a debt-reduction scheme would affect the Bank's development mandate with respect to the countries to which it would be applied.

This is particularly important against the background of budgetary constraints in many countries which should not lead to a weakening of the commitment to, and financial support for, multilateral institutions, in particular the Bretton Woods organizations. In this context, we also urge the prompt fulfillment of donors' commitments to IDA-10 as well as a truly significant replenishment of IDA resources. In this regard, I cannot overemphasize the importance of the multilateral character of IDA, which can only be protected through fair burdensharing with respect to resource mobilization.

Statement by the Governor of the Bank for Tonga

Kinikinilau Tutoatasi Fakafanua

I am honored to represent the Government of the Kingdom of Tonga at the Joint Annual Meetings of the Bank and the Fund. I join my fellow Governors in expressing our appreciation to the Chairman, Mr. Paul Dossou; the President of the World Bank, Mr. James D. Wolfensohn; the Managing Director of the Fund, Mr. Michel Camdessus; and the management and the staff of both institutions for the excellent arrangements of this meeting.

I also join other Governors in expressing deep regret at the passing away of the former World Bank President, Mr. Lewis Preston. I also take this opportunity to extend a warm welcome to the new President, Mr. James D. Wolfensohn.

I welcome the Bretton Woods institutions' reports, which forecast continued favorable global economic outlook. It is interesting to note that the economic growth outlook for developing countries will continue to be strong though it will vary across the regions.

I note with concern the move to decrease the total official development assistance, and the growing sentiments against official development assistance among donor governments. While I recognize that all countries face budget constraints, I urge donor governments to adopt a more global view and to support actions to increase official flows. In this regard, I welcome the initiative of the Development Committee to focus on its major role in directing more official development assistance to developing countries. This is critical in a time when developing member countries are undergoing structural adjustment.

Turning specifically to World Bank matters, I support the continued emphasis of the Bank in its prime objective to reduce poverty. This is reflected in its ongoing assistance toward the social sector, particularly with the Bank's lending in support of education, health, and other social services.

With the International Development Association's (IDA) principal goals of poverty reduction, growth, and environmental sustainability, I share the concern regarding the IDA-10 funding situation over the shortfalls by the donor countries in meeting their commitments. I recognize the heavy commitment individual donor countries have, however, I fully support the concern the Bank has regarding this shortfall.

I support the efforts of the Bank toward private sector development through direct investment to the private sector and financing of infrastructure and urban development. In this regard, I thank the Bank for the continuing support provided to the South Pacific Island nations through the South Pacific Project Facility. Having said that, I would like to caution that the Bank must take into perspective the local conditions of developing countries in their activities.

The Bank's effort to reduce the debt burden for severely indebted poor countries is welcomed, in particular its provision of IDA credits, technical assistance for debt management, and policy reform.

I welcome the formal relationship to be established between the Bretton Woods institutions and the World Trade Organization (WTO). This relationship could help in clarifying the impacts of WTO initiatives on developing countries.

On staffing matters, I wish to state my support for a more flexible approach, taking into account the analysis of demand and supply of skills mix, staffing levels, and regional balance.

I recognize that environmentally sustainable economic development is also important, but it should not be overemphasized at the expense of other development priorities of developing member countries.

Let me now turn to specific Fund matters. I support the need by the Fund for more resources to ensure that it meets its commitments in developing countries, particularly in the area of structural adjustment.

I welcome the initiative by the Fund to formally establish the enhanced structural adjustment facility (ESAF). This facility has supported many structural adjustment programs in developing countries during its pilot phase.

I appreciate the continuing technical assistance of the Fund to the Pacific Islands through the Pacific Financial Technical Assistance Center.

The operations of the Center have certainly supplemented the needs of the Pacific Island nations in financial management.

Turning to Tonga, membership in the Bank and the Fund has enhanced our developmental efforts. Tonga has enjoyed a relatively stable economic growth over recent years. This has been achieved mainly through deregulating the economy and development of the agriculture sector, particularly the exports of squash and vanilla. In order to sustain this economic growth momentum, the Government continues to carry out necessary adjustment programs both at macro and micro levels. These include public sector management reform, export diversification, infrastructure development, and proper regulatory framework for private sector development. Efforts will also be directed at developing potential areas such as fisheries and tourism.

In conclusion, let me thank the World Bank Group and the Fund for the assistance that has been extended to the member countries. This interest must be continued.

STATEMENT ON BEHALF OF THE GOVERNOR OF THE BANK FOR PAPUA NEW GUINEA

Christopher Haiveta[1]

I regret that I am not able to be personally present in Washington, D.C., on the occasion of the 1995 Annual Meetings of the Governors of the World Bank and the International Monetary Fund. I wish the meeting every success.

I wish to extend my compliments to both the Bank and the Fund for the efficient manner in which the Meetings have always been organized. My delegation extends our appreciation to the staff of the Bank and the Fund for the predictable efficiency with which they continue to organize these Annual Meetings.

We were saddened to hear of the passing of the late President Lewis Preston in May this year and pay tribute to him for his contributions to enhancing the effectiveness of the Bank's contributions to development. We would also like to take the opportunity to wish Mr. James Wolfensohn, our new President, every success in the challenging tasks that lie ahead.

May I also extend a warm welcome to Brunei Darussalam, our newest member of the Bank and the Fund. We also congratulate the Republic of Korea on its graduation from borrower status to a financier in the Bank and the IMF.

[1]Mr. Haiveta did not attend the Annual Meetings. Mr. Gerea Aopi served as Governor of the Bank during the Meetings.

In my first address to the Joint Meetings in Spain last year, I reported that a peaceful, tranquil, and democratic change of Government occurred in Papua New Guinea in August 1994. I am further pleased to advise that political stability has since been successfully maintained over the past year, with the coalition Government continuing to enjoy a large majority in the parliament. This coalition Government appears certain to lead the present Government into the next elections due in mid-1997.

Over the past year, we have continued to make gradual but consistent progress in resolving longstanding difficulties on Bougainville. In the final quarter of 1994, a ceasefire came into effect and a peace conference was convened with support from a regional peacekeeping force. An interim Government has since been established for the province and many districts have since returned to near normalcy. However, pockets of resistance and opposition still remain, and there have recently been renewed efforts at political resolution through the convening of negotiations of all interested parties in Cairns, Australia. It is hoped that the initial Cairns talks will lead to a series of followup negotiations and ultimately a political resolution of the conflict.

Attainment of real peace is of great significance for Papua New Guinea's economic future. It will allow for reduced expenditures on defense and an increase in agricultural production from what was once our most bounteous agricultural export region. The question of resumption of gold and copper mining in the region is not of early priority and will take longer to resolve, with a need to ensure that future solutions are socially and politically sustainable.

Over the past year, developments in the international economy have been generally favorable for Papua New Guinea. Long-term sustainable growth with low inflation has been experienced in most of our key trading partners, including Australia, the United States of America, Western Europe, and most of Southeast Asia.

The one worrying spot in our region has been the stalled economic recovery in Japan. Setbacks in Japan have reduced demand for some of our key commodities, especially timber, following the downturn in the Japanese property and building sectors. The Papua New Guinea Government supports fiscal, monetary, and exchange measures being taken by the Japanese authorities to stimulate their economy. Providing growth can reemerge in Japan in 1996, the outlook for the world economy over the next year or two remains sound.

We appear to be at an unusual stage of the world economy where things look to be rather rosy and where there is not too much to complain about. These circumstances have resulted in sharp terms of trade improvements for Papua New Guinea through 1994, which have largely been sustained to date through 1995.

Improvements have come mainly through rises in our key commodity export prices, including prices of copper, coffee, copra, cocoa and palm oil, and to a lesser extent, the prices of gold and petroleum, which have been stable, though not spectacular. Our main recent price disappointment has been with regard to log exports.

In Papua New Guinea, we have come to be very cautious with regard to upturns in the commodity price cycle, which based on past history is the time to save, and not to spend. The current high stage of the cycle is being used as an opportunity to repay debts which most of the key commodity groups accumulated in the early 1990s.

Savings from mining and petroleum windfalls are also being built up in the Mineral Resources Stabilization Fund and through a sharp reduction in debts of the Mineral Resources Development Corporation, which has accumulated very significant net worth over the past decade, and which now represents the Government's main vehicle for accumulating savings and wealth from mining and petroleum activities for the benefit of future generations.

Following the emergence of fiscal and external strains in the economy in the first half of 1994, significant reforms have been made to economic policies over the course of the past year. These reforms have largely aimed to correct past imbalances and to provide for a more stable and sustainable macroeconomic climate in the immediate term, which can then be used as a solid base for pursuing longer term social and economic reforms.

Papua New Guinea has a long record of pursuing stable and conservative economic policies, having achieved stable macroeconomic outcomes in around sixteen of the twenty years which have elapsed since our independence. Our flirtation with more high-risk, expansionary policies over the period 1992 to 1994 is now over. We have moved back to a more sustainable policy framework.

Unfortunately, while we are well schooled in finding the path to more stable outcomes, as we all know there is a lot of pain to be suffered by many people before arriving at the end of this path. This has certainly been the case in Papua New Guinea in the past year, where the population has been confronted by higher than normal inflation, government services have had to be seriously curtailed, and urban wage-earners have experienced substantial real declines in wage levels.

The main macroeconomic reforms which have been pursued over the past year have included the following:

- first, the Papua New Guinea currency has been floated, without central bank intervention, and after consistently moving lower for most of the year, the currency has in the past two months stabilized at levels against the U.S. dollar approximately 30 percent lower than a year ago;
- second, monetary policy has been tightened through open market operations and by increases in the required minimum liquid assets ratio to 32 percent. Recent 182-day treasury bill rates have approached

20 percent, which are very high by Papua New Guinea historical standards;

- third, public sector wages policy has been very tightly constrained with increases in 1995 limited on average to 3 percent; and
- finally, the budget has been very greatly tightened on both revenue and expenditure sides. The overall deficit, which averaged 5.3 percent of GDP in the three years 1991 to 1993, was reduced to 2.8 percent of GDP in 1994, and we are currently projecting a small surplus for 1995. Over the medium term we propose to operate fiscal deficits approximately equivalent to 1–2 percent of GDP, with low levels of domestic financing.

While the macroeconomic adjustments have been painful they are now commencing to achieve the expected results.

Following stabilization of the currency over the past two months inflation is now expected to peak at around 15 percent in 1995 and to then gradually drop back to levels close to the major industrial countries from 1996.

Growth in the non-mining and petroleum sectors of the economy is projected to contract by 1 percent in 1995 but to then resume its recent trend of 4–5 percent growth over the medium term.

The external situation has now been stabilized, in part through a return to positive official flows for the first time in some years. Significant overall surpluses are being projected on the external account for 1995 and 1996, which will assist to consolidate stabilization of the currency, and to moderate inflation.

At the same time that macroeconomic reforms have been pursued, longer term microeconomic and structural reforms are also being put in place. These longer term reforms include:

- first, a reprioritization of government expenditure policy to allocate additional resources to investment, especially in improving services to priority areas of education, health, law and order, agricultural development, and physical infrastructure;
- second, a reinvigoration of attempts to improve management of our natural nonrenewable resources sector to ensure maximum national benefits are being obtained from our key resource commodities of gold, petroleum, copper, and gas; and
- finally, taxation, tariff, industry policy, trade, and other market reforms are being pursued with the aim of making the economy more efficient and more conducive to private investment, in the quest for higher growth in production and employment.

Following this brief review of our economic developments, let me now turn briefly to review our relations with the Fund and the Bank over the last year. To assist with our economic reform program, the International Monetary Fund approved a stand-by arrangement of SDR 71.5 million in July this year. While this modest arrangement took a very long time to negotiate and involves significant conditionality for modest amounts, Papua New Guinea is nevertheless appreciative of the financial and technical support provided by the Fund over the past year.

The World Bank has assisted Papua New Guinea to finance rehabilitation work following the Rabaul volcano eruption in 1994 by allowing the pooling of various slow-disbursing loans into one rehabilitation loan of $35 million. The Bank's rapid response on this loan has been appreciated.

A small economic recovery loan to assist in the pursuit of longer-term social and economic reforms was also recently approved by the Bank following very extended discussions.

We have noted that at the same time as our Economic Recovery Loan was being approved, the Bank's Country Assistance Strategy for Papua New Guinea was also being endorsed by the Board. This strategy provides, apart from other conditions, a specific provision for the withdrawal of the Bank's financial assistance to Papua New Guinea in the event that agreed policy reforms are not implemented. Papua New Guinea, given its consistent record of debt repayment finds this approach contradictory to ongoing work in the Bank particularly with regard to multilateral debt problems of the heavily indebted countries. While we are sympathetic to the problems of the heavily indebted countries, we find it ironical that while special treatment is being engineered to facilitate new lending to poor debtors, the Bank is threatening to disengage itself from activities in countries who make timely loan repayments and where political or policy views of the country may from time to time be at variance with those of the Bank.

I believe that the recent decision by the Bank to establish an operational office in Port Moresby will go a long way in creating better understanding between the Government and the Bank. We look forward to the upgrading of this office to full Residential Representative status.

On the Multilateral Investment Guarantee Agency's (MIGA) assistance to Papua New Guinea, we appreciate MIGA's Board of Directors' approval for the issuance of up to $50 million coverage for the major Lihir gold project, which is set to commence construction in the final quarter of this year.

We also look forward to the finalization of outstanding arrangements relating to a $13 million first investment by the International Finance Corporation (IFC) in a tuna canning operation in Papua New Guinea.

I thank you for this opportunity for Papua New Guinea to outline recent economic developments and provide a frank assessment of its relationship with the Fund and the Bank. For Papua New Guinea, the Bank and the Fund will remain very important institutions and we are fully committed to continuing the close and frank working relationship in the years ahead.

I again congratulate the organizers of the Meeting and compliment all other Governors on their enlightening presentations. I trust that the sum of all our contributions will eventually provide tangible benefits for the developing nations of the world.

STATEMENT BY THE GOVERNOR OF THE BANK FOR MALTA

John Dalli

It is indeed a privilege and an honor for me to address the Annual Meetings of the World Bank and the International Monetary Fund. I will immediately take this opportunity to express my deep sorrow at the passing away of the former President, Mr. Lewis T. Preston, who gave such a valid contribution to the work of this institution. I feel sure that the Bank will continue to go forward under the leadership of Mr. Preston's successor, Mr. James Wolfensohn, whom I congratulate on his appointment and wish him all success in this challenging post. I would also like to join other countries in welcoming Brunei Darussalam to membership in the Bank and in the Fund.

The past year has been an eventful one with developments in the world economy and the international financial markets showing both positive and negative features. The global economic situation has been generally positive and encouraging. Industrial economies have continued to recover steadily against a background of low inflation; the developing world has also registered strong growth while there has been visible progress in many of the economies in transition. This optimistic economic situation is mainly attributable to the pursuance of sound macroeconomic stabilization policies which have proved to be the most effective strategy to achieve long-term economic growth.

Nevertheless, we should not overlook the fact that a number of serious problems still exist. A substantial number of less developed countries, especially in sub-Saharan Africa, are still suffering from widespread poverty, unsustainable external debt burdens and subdued levels of economic growth. This calls for urgent action to be taken. It is the responsibility of the international financial community to support structural and institutional reforms in these countries through adequate levels of resource transfers and debt relief even though the latter course of action does not always attract broad support in international fora. This notwithstanding, we welcome the initiatives taken by the Paris Club to ease the debt burden of the poorest countries. We also observe with interest the proposal by the World Bank to create the multilateral debt facility to pay principal and debt service payments on multilateral loans to the least developed economies. It is hoped that an agreement on the setting up of this fund is reached among all parties concerned for its speedy implementation. In this regard, priority in the allocation of resources should be given to those countries which have demonstrated the ability and commitment to use them effectively. The implementation of basic social programs should be encouraged especially if these contribute to the eradication of poverty.

Attention should also be given to the countries in transition where economic performance varies considerably, depending on the stage of economic stabilization and restructuring achieved by these countries. The process of structural reform must be pursued vigorously in order to consolidate the gains which have been attained. Their integration in the global trade and financial system is also of paramount importance. However, while it is observed that the amount of capital inflows to these countries has increased substantially, signaling investor confidence in their economic potential, it is essential that foreign capital flows are also accompanied by growth in domestic savings which ultimately will serve as the basis for long-term investment.

Other problems facing the world economy should not be overlooked. In the past months, there were cases of interest rate and exchange rate volatility among the major currencies and rapidly shifting sentiments in international capital markets. A case in point is the sudden and sharp reversal of capital flows to Mexico. In this instance, the IMF acted quickly and effectively to support Mexico's strong adjustment program and to isolate emerging markets from the resultant spillover effects. With few exceptions, capital inflows to developing countries were sustained at relatively high levels, thanks to the action by the Fund.

On the one hand, the Mexican crisis demonstrated the firmness with which international capital markets deal with policies which fail to mirror economic realities. On the other hand, it showed how much more effective it is to avoid rather than resolve a crisis. In this regard it is crucial for the Bretton Woods institutions to have the necessary means to deal with any crisis that threatens to arise. For this purpose, the Fund, in particular, needs to strengthen its surveillance over its member countries to ascertain itself that sound fiscal and monetary policies are being pursued. In fact, the need to strengthen the IMF surveillance function was an important issue discussed last June at the Halifax summit of the Group of Seven industrial countries.

The mechanism for the prevention of crises requires a system whereby early warning is given of any impending danger to the economic system. In this regard, we support the declaration by the Group of Seven nations urging the IMF to establish benchmarks for the timely publication of key economic and financial data and to insist on full and timely reporting by member countries of standard sets of data.

In focusing on the activities of the World Bank over the last year, we note with satisfaction that further progress has been achieved in the area of human resources development. Human resources development is no doubt a vital element of economic and social development, particularly where effective primary services in education and health are concerned. Not only has Bank lending for such development increased substantially, but it has also been noted that the Bank has given increasing attention to safety nets and social impact in the design of its economic reform programs. My country, although not eligible for World Bank financial assistance, fully supports the expansion of such lending programs.

In the field of private sector development, it is interesting to observe that World Bank guarantees are now a part of the Bank's regular package of support. This should enhance the attractiveness of projects in developing countries that require substantial amounts of private capital. Apart from privatization, which remains a major focus of its assistance policy, the Bank is providing support in other related areas, notably in the creation of an attractive business environment. In this regard, it appears that the Bank's support is also focused on the reform of public institutions and the regimes that regulate product, capital, and labor markets.

This is certainly an approach which can contribute effectively to the business environment in countries where, until a few years ago, economic activity was dominated almost totally by the central government and public sector organizations. My country passed through this experience in the early to mid-1980s but this trend has been decisively reversed in recent years. The Government in Malta has continued to reduce the role of the public sector in most activities that could easily be undertaken by the private sector. We have taken this policy a step further earlier this year with the privatization of one of the major commercial banks.

We are, however, ensuring that before the privatization of a company is undertaken, a study of the market environment in which that company operates is conducted to ensure that the presence of market forces is guaranteed. To strengthen competition and the role of market forces, we have liberalized to a large extent the product and labor market through the almost total removal of price controls and restrictive practices. We have enacted a Competition Act and are in the process of discussing a new Companies Act in parliament. Our efforts at reform have also been centered on the public institutions themselves. These have come under close scrutiny to ensure that the services they provide are efficient and at the least cost. The civil service has been reorganized and its procedures reviewed to ensure as much as possible a high degree of transparency. All these reforms are aimed at modernizing our economy, so that it will be in a position to face international competition in an open environment.

We are convinced that long-term economic progress can only be achieved if the policies we adopt encourage competition and the removal of protective barriers. Trade controls have in fact been completely dismantled and customs tariffs have been reduced considerably. The ultimate goal of our liberalization strategy is now the total removal of exchange controls. I am glad to say that Malta was one of those countries which last year accepted the obligations of Article VIII of the IMF’s Articles of Agreement, thus undertaking to refrain from imposing restrictions on the making of payments and transfers for current international transactions. We intend accelerating the pace of financial liberalization in the coming year by removing all ceilings on domestic interest rates. This will pave the way for a further relaxation of controls on capital flows. Since the liberalization of capital account transactions can create exchange rate pressures through the effect of destabilizing speculative flows, we cannot but agree with the Executive Board of the IMF that more attention should be paid to capital account issues where IMF surveillance and technical assistance is concerned. We also favor the setting up of currency stabilization funds which make resources available to help counter short-term capital movements which may create difficulties when stabilization and reform programs are being implemented. Such a facility will strengthen the ability of a country to maintain the level of its exchange rate when this comes under pressure as a result of capital account liberalization. We also support the call made by the Group of Seven for an emergency financing mechanism that would provide faster access to IMF arrangements with strong conditionality and larger up-front disbursements in crisis situations involving such outflows of capital.

With regard to some of the major IMF issues under discussion, I would like to mention that the IMF’s resources have been subjected to exceptionally heavy demands during the past year as the Fund acted swiftly to provide assistance to a number of developing countries, most notably Mexico, Algeria, and Argentina, as well as Russia, Ukraine, and other economies in transition. This strain on resources highlights the importance of monitoring the IMF’s liquidity position. We therefore welcome the support extended by the Group of Seven nations in their Halifax summit communiqué for the provision of sufficient resources to allow the Fund to meet its responsibilities. In particular, we note the request made to the Group of Ten and other countries to develop financing arrangements with the objective of doubling the amount currently available under the General Arrangements to Borrow in response to financial emergencies. We also hope that the Eleventh General Review of Quotas will be completed as soon as possible to ensure that the IMF is adequately funded. On the subject of SDRs, we note that the debate on whether a new allocation should be selective or generalized has not yet been resolved. We would like to reaffirm our view that, ideally, a consensus be reached so that a generalized increase be allocated in addition to special allocations to those countries which have not benefited from previous issues of SDRs.

I conclude by attesting that our country will continue to pursue fiscal and monetary policies that ensure economic stability. We are happy to say that since becoming a member of the IMF in the late 1960s, we have never sought recourse to the Fund's lending facilities. On the contrary, we have always maintained a creditor position with the Fund and contributed in a modest way to the Fund's ESAF facility. We have, however, taken advantage of the Fund's technical assistance, and so I would like to take this opportunity to express my gratitude to the Fund for the expert advice which it has extended to our country time and again. I would also like to thank the Directors and Alternates representing Malta on the Executive Boards of both the Fund and the Bank for their kind cooperation throughout the year. On our part, we will continue to do our utmost to support these institutions so that they will be able to achieve the goal of international monetary stability and cooperation.

STATEMENT BY THE GOVERNOR OF THE FUND FOR SRI LANKA

Gamini Lakshman Peiris

It is my privilege and pleasure to address you on behalf of the Government of Sri Lanka at this plenary session of the Fiftieth Annual Meetings of the Boards of Governors of the World Bank Group and the International Monetary Fund. There is little doubt that during the last fifty years the IMF and the World Bank have played a significant role in safeguarding the orderly functioning of the international monetary system and by promoting transfer of resources for equitable development worldwide. As an independent nation for forty-seven years, Sri Lanka has been happy to be a part of this international effort.

It is encouraging to note that the world economy is in much better shape now than it has been for many years. The world economy has performed robustly in the recent past with significant recovery in industrial countries, continuing strong growth in developing countries, and a turnaround in transition countries. We are happy that most Asian countries have performed well despite adversities, and Sri Lanka is proud to have been one of the pioneers in the field of economic liberalization.

Widespread acceptance of market-friendly policies, increasingly liberal trade policies, sound structural reforms and healthy international cooperation have been the cornerstones of this success. We must continue to work for a more open trading environment in which the developing countries have ready access to the markets of the developed countries. In this connection, it is heartening to note that by end-July 1995 as many as 105 countries have ratified the Uruguay Round and become members of the

World Trade Organization (WTO). However, the prospects for international food prices are worrying. With the phasing out of national subsidies to agriculture, prices are expected to rise; imposing severe pressures on net food importing countries. Some understandings to tide over the problems have to be reached.

However, we cannot be complacent about current prospects of the world economy. There is persistent poverty and rampant unemployment with widening income inequalities in many parts of the world. These constitute basic challenges that should demand urgent attention of the multilateral institutions. We have to ensure that the benefits of economic advancement reach all parts of the globe and all segments of society, consistent with the political, economic, and social objectives of our countries. We do hope that the Bretton Woods twins stand up to this great challenge as they design their operational strategies over the coming years.

Meanwhile, in a fast-changing economic environment, the business of international economic housekeeping has become ever more demanding. This was demonstrated clearly by the recent events following the financial crisis in Mexico. The sweeping deregulation of financial markets, the liberalization of capital movements, and the revolution in communications technology has knitted the world economy ever more tightly. As a result, market disturbances tend to travel quickly across the global economy. In this environment, any major realignment of currencies can cause problems for the developing countries. Consequently, the supervisory function of the multilateral institutions has become ever more important. In the past, the application of surveillance and conditionality to ensure good economic behavior had been mostly on the debtor countries. We are glad to note that this is fast changing and the IMF surveillance is now being extended to encompass macroeconomic policies of all countries.

We welcome the continuing efforts on the part of Bretton Woods institutions to provide concessional resources to developing countries—in the IMF through the continuation of the enhanced structural adjustment facility (ESAF), and in the Bank through International Development Association (IDA) lending. However, we are disturbed by the recent tendencies to impose cutbacks in contributions to these important programs. We urge the authorities in the surplus member countries to remain committed to the cause of the needy members in the global community by supporting these programs, particularly to the current IDA-10 and the prospective IDA-11.

Next, a word about adjustment programs. There is little disagreement on the basic proposition that macroeconomic stabilization and structural reforms are vital for promoting durable economic growth. At the same time, we should be mindful to protect the most vulnerable sections of the population, including women and children, and to safeguard the environment. In other words, meaningful macroeconomic adjustment has to be more people oriented. Otherwise, development might signify an empty word to the majority of the world's people.

In 1994, there was a change of Government in our country after eighteen years. When the new Government took office under the leadership of Her Excellency Chandrika Bandaranaike Kumaratunga, it gave high priority to a political agenda aimed at restoration of democracy, elimination of harsh emergency laws, and promoting transparency of Government. At the same time, it was fully committed to promoting rapid export-led economic development based upon market-friendly economic policies as the only means of amelioration of chronic unemployment. The Government was also committed to protecting the vulnerable during periods of macroeconomic stabilization. Accordingly, the Government launched a well-targeted consolidated single welfare program last month called the "Samurdhi" or Prosperity Program, which seeks to alleviate poverty on a sustainable basis.

Unfortunately, the conflict in the north and east of Sri Lanka during the last decade or so has meant a heavy burden, preempting large resources which could have gone to improve living conditions. Although confined to a small part of the country, the conflict was a serious downside risk to achieving rapid economic growth. Our new Government lost no time in seeking a negotiated political settlement to provide an environment for all communities in our multiracial society to live in peace and harmony—as they did for thousands of years before the conflict. This process suffered a setback because dissidents reverted to violence, for reasons best known to them. The conduct of the dissidents in breaking the negotiations was unreservedly condemned by the entire international community.

The whole nation is tired of this conflict and we hope that the setback will be temporary. We have now unfolded a set of proposals for the devolution of political power to regions with a view to eliciting political consensus for a resolution of the conflict. The peace package has been strongly endorsed by the international community as fair and just, and is now before the people, for their verdict. We are hopeful of an early breakthrough in ending the lingering conflict.

Sri Lanka has received generous support from the international community in the past, especially since she became the first country in the region to adopt open liberal economic policies eighteen years ago. Our new administration has improved on these policies by restoring democratic freedoms and by open transparent government. Support from Bretton Woods institutions has helped catalyze assistance from other multilateral and bilateral sources. This has kept debt service at manageable levels and has made sustained economic reforms and progress possible. There is strong interest shown by foreign direct investors in the infrastructure sector, which has been opened for private investment. Our privatization programs are gathering momentum. But we are yet to realize the true potential of our economy. And the IMF and the World Bank can beneficially complement Sri Lanka's efforts at catalyzing foreign investment.

In concluding, let us make this Fiftieth Annual Meetings a time for reflection—a time for renewed resolutions. Both institutions have demonstrated remarkable resilience to respond rapidly to changing circumstances and resolving many a crisis. But crisis management should not detract them from the visionary goals of their founding fathers. The mandate of the Fund calls for rekindling of the cooperative spirit to ensure better economic performance around the world, particularly in the poorer regions. For the Bank, the challenge is to help build up infrastructure as an incentive to promote private capital investment, which will ultimately promote economic growth and reduce poverty. We look forward to a resolute dedication to the spirit of Bretton Woods.

Statement by the Governor of the Bank and the Fund for the Russian Federation

Anatoli Chubais

I welcome this opportunity to address you. In my brief statement, I would like to touch on three issues: the state of the world economy, the roles of the Fund and the Bank, and the state of Russia's economy.

State of the World Economy

We view the state of the world economy as generally quite favorable. Most countries are pursuing responsible financial policies that ensure a combination of sustainable economic growth and low rates of inflation. The recent unwarranted fluctuations in exchange rates have been successfully rectified through the coordinated actions of the central banks managing the key reserve currencies. Clearly, the greatest possible advantage should be taken of the favorable state of the world economy to resolutely redress the accumulated fiscal and structural imbalances.

Most industrial countries continue to show potential for further sustainable growth. It would seem that the slight moderation of growth in the countries of North America and Western Europe in the first half of this year was temporary, and should not be viewed as a signal for loosening financial policy. A number of industrial countries have succeeded in achieving a measure of improvement in fiscal indicators: budget deficit reductions, and a slowdown in the growth of public debt. Nonetheless, considerable additional efforts need to be made to overcome the accumulated imbalances. Pension reform is a pressing issue in most industrial countries. The need for resolute action to increase flexibility in labor markets is underscored by unemployment rates which remain high, especially in West European countries.

We have already grown accustomed to seeing high rates of economic growth in those developing countries whose economies are marked by a high degree of openness and integration in the world economy. It is gratifying that the number of such countries keeps growing, and that taken together, this group, which includes most East Asian and Latin American countries, has already become a significant growth factor in the world economy. It is also gratifying that the unfavorable effects of the financial crisis in Mexico turned out to be of short duration and did not bring about a substantial slowdown in growth in this group of countries as a whole. Nonetheless, the experience of Mexico has shown yet again that a high degree of openness in the economy makes particularly strict demands on the quality of national financial policy. Those countries wishing to replicate the success of the most dynamic developing countries should ponder this. In particular, the liberalization of capital account transactions definitely requires establishment of the necessary prerequisites, both macroeconomic and institutional.

It appears that the state of affairs in those developing countries whose economies stagnated for many years has been gradually changing for the better. I refer primarily to a number of countries in sub-Saharan Africa, where we now observe an acceleration in economic growth. I trust that this trend will continue.

I believe that this year will see a turnaround in many transition economies. Virtually all of them have made conspicuous progress in overcoming inflation and, therefore, in providing an environment for the resumption of economic growth. Of course, it is still premature to speak of a successful completion of reforms because there still exist a great number of financial, structural, social, and other problems. It is important that the resumption of economic growth should facilitate stepped-up efforts in these countries to overcome the remaining imbalances.

The Roles of the Fund and the Bank

The accelerated globalization of capital markets has sharply reinforced the economic interdependence of all countries of the world, as evidenced by the financial crisis that occurred in Mexico. This particular factor serves as the point of departure for our assessment of the roles of the Fund and the Bank and their policies.

It is our view that the key task of the Fund is to improve the effectiveness of its surveillance. In this regard, we wholeheartedly support the

Fund's efforts to introduce stricter requirements for the provision of statistical information by its members. This approach is in keeping both with the Fund's traditions and with the letter and spirit of its Articles of Agreement. In our opinion, the Executive Board of the IMF is on the right track on this issue. Of course, the willingness of the Fund itself to provide the necessary technical assistance to national statistical services will be important, if progress is to be made in this area.

We also support the Fund's efforts to develop standards to guide members in the publication of statistical data. The set of statistical indicators proposed for regular publication seems to us reasonable and warranted. Of course, a restrained reaction to these proposals might be expected from those central banks which, in the past, pursued a policy of caution in publishing data on the level of their foreign exchange reserves. The experience of many countries, however, including Russia, demonstrates that it is a dangerous misconception to believe that stability may be maintained in the currency markets by concealing data on the levels of foreign exchange reserves. On the contrary, the lack of accurate information serves only to make market participants more nervous and to heighten the risk of a panic.

Strengthening the Fund's surveillance should help prevent new financial crises. Nonetheless, in the event that such crises do develop, the possibility of the Fund's participating financially in surmounting them cannot be ruled out. This is why we support the development of an emergency financing mechanism for the Fund, toward which, to my knowledge, substantial progress has already been made. Of course, such financing should be provided only if strict financial policy conditions are met in the countries concerned.

With regard to the Fund's possible financial participation in surmounting new financial crises, we support the concept of increasing its capital under the Eleventh Review of Quotas. Our preference, both with a view to the most speedy resolution of this issue, and in light of discussions already held by the Executive Board, is for the version of increasing quotas on a proportional basis. As far as the size of the capital increase is concerned, we are prepared to show flexibility in order to achieve the necessary consensus.

As I move on to our assessment of the World Bank's role, I would first of all like to say that we deeply mourn the loss of President Lewis Preston, who did much for the reorganization and reorientation of the Bank's activities.

Certainly, the policy of reorganization and reorientation of the Bank's activities must continue, and we support the efforts of the new management of the Bank in this area. In particular, we welcome the reorientation of the Bank's activities with a view to resolving global social problems, especially as regards the elimination of poverty and environmental conservation. The main guidelines for such actions have been set forth in the Social summit documents, although much work lies ahead here on the refinement of approaches.

Support for private sector development is another important aspect of the reorientation of the Bank's activities. Some progress has already been made here. In this regard, we view favorably the operations of the International Finance Corporation in Russia. Nonetheless, further efforts are necessary in this matter.

Finally, we should mention the need to strengthen coordination of the Fund's and the Bank's activities. We know that the management of the Fund and the Bank consider this issue very important, and we welcome their efforts. Successful coordination of the Fund's and the Bank's activities is exemplified by their joint participation in the development of the Government of Russia's medium-term economic program, which we expect to complete shortly.

The State of Russia's Economy

In conclusion, I would like to say a few words about the state of Russia's economy. This year, the Government of Russia has been implementing an economic program aimed at accomplishing financial stabilization and providing an environment for the resumption of economic growth. The main objectives of the program are to sharply reduce the federal budget deficit, lower the inflation rate, increase official foreign exchange reserves, and stabilize the exchange rate of the ruble. We believe that fulfillment of this program will foster greater investment activity in Russia.

I must say that, in the main, the targets set have been met thus far. In the first nine months of this year, the federal budget deficit came to about 3 percent of GDP, compared with 10 percent of GDP last year. The monthly rate of inflation declined, over the same period, from 18 percent in January to approximately 4 percent in September. The volume of official foreign exchange reserves has more than doubled since the beginning of the year. The introduction of a band for exchange rate fluctuations has made it possible to ensure relative stability for the ruble.

At the same time, the decline in output has slowed, and economic growth has resumed in certain industries, primarily export-oriented ones. The overall decline in GDP over the first nine months came to 4 percent, compared with 16 percent last year. Next year, we expect economic growth to be registered in Russia for the first time since the beginning of economic reforms.

Unfortunately, the rate of inflation has dropped rather more slowly than we expected. This is due primarily to the growth of base money being substantially greater than expected. The Central Bank of Russia has pursued a tight monetary policy, and the growth of the net domestic assets in the first half of the year came to 12 percent, or about 2 percent a month. Nonetheless, as early as spring we encountered a sharp increase in capital inflows to Russia, which complicated the conduct of monetary policy considerably. As a result, net international reserves grew beyond projections, and the growth of base money in the first half of the year came to 52 percent.

The Government and the Central Bank of Russia made the necessary adjustments to the program at midyear. Introduction of the exchange rate band made it possible to slow the growth of base money, which fell to 5 percent in July and August; according to preliminary data, it was as low as 2 percent in September. At the same time, the Government undertook a number of measures to strengthen fiscal discipline and increase federal budget revenues through, among other things, a one-time repeal of all forms of previously granted tax exemptions. We believe that the rate of inflation will fall very soon as a result of these measures.

We also believe that the implementation of our privatization program will be stepped up decisively in the very near future. The Government of Russia has devoted great effort to establishing the stock market infrastructures, both legal and institutional, which are necessary to sell the blocks of shares still owned by the state. Such work has now been mostly completed.

The Government of Russia firmly intends to carry out this year's economic program in full, and is already working on a medium-term economic program.

STATEMENT BY THE GOVERNOR OF THE BANK FOR CAMBODIA

Keat Chhon

I deem it a great honor and privilege to represent the Kingdom of Cambodia at this august assembly of top-level macroeconomic policymakers of the world community. My delegation brings to you all the warm greetings and good wishes of the people and the Royal Government of Cambodia.

As is widely known, after two decades of war and international isolation and neglect, Cambodia is now at the beginning of its fresh lease on life. We are beset by many daunting tasks and challenges in our earnest endeavors to rehabilitate our war-torn economy, rebuild our political, economic, and social institutions from scratch, and rapidly usher in an era of peace, prosperity, and growth for our people. In rebuilding our nation, which has one of the lowest per capita incomes in the world, multifarious initiatives are to be launched all at the same time; everything needs to be fast-forwarded to make up for the lost decades. We are grateful for the international attention, advice, and financial and technical assistance to help us in our efforts. But we know that it is the clear vision, patriotic dedication, perseverance, and hard work on the part of all Cambodians which will determine our success. We want to assure the world community that we have this forward-looking vision, resolve, and discipline to overcome all odds and proceed steadfastly to reach our goals. This is the legacy we owe to our posterity.

In choosing our path to progress, we have decided to follow some basic unalterable tenets. We are determined to follow a people-centered, participatory approach in full consultation with relevant groups in the civil society. We will ensure that nation building uses people's creativity, ingenuity, and innovation through a market-oriented approach, where each individual has the opportunity to realize his or her full potential and contribute to national progress. The goal is to achieve sustainable social and economic progress in the shortest possible time with an accent on poverty alleviation.

Our overall vision for the future is articulated in the National Program to Rehabilitate and Develop Cambodia (NPRD), prepared in 1994 and updated this year. Flowing from it, we are preparing a five-year perspective and a three-year rolling public investment program which will be presented to the first Consultative Group meeting to be held next year. To effectively realize the vision of the NPRD, the Royal Government is implementing strategies in seven specific operational fields: (1) to ensure overall security and political and social stability; (2) to re-establish the rule of law in which the Government will be the manager of development and will function in close partnership with the private sector. In this regard, the public sector is being reformed to enable it to fulfill its designated role; (3) to bring about economic stabilization and reform; (4) to develop human resources, including health and education; (5) to rehabilitate and construct physical infrastructure and facilities; (6) to integrate Cambodia into the regional and world economy; and (7) to achieve rural development, with an accent on optimization of natural resources and environment management, including the unique Tonle Sap Lake.

In spite of the many handicaps with which we commenced our work, we have achieved much in the past two years. With technical and financial help from the international community, and national determination and discipline on our part, we have achieved a measure of macroeconomic stability. Inflation has been reined in and is under control. The national currency is stable vis-à-vis its external counterparts. National GDP has begun to grow and is slated for a steady 7 percent increase annually, towards doubling itself in less than a decade. Revenues have grown steadily. Although some parts of the country are beset by intermittent incursions by outlawed elements, calling for constant vigilance, the security situation has improved, thereby reducing expenditure on this account. The legal framework and an enabling environment are being built. Infrastructure is being rapidly upgraded, and rural development efforts are under way. All these have increased investor confidence, as manifested in large foreign direct investment interest in various fields.

The documents prepared by the Royal Government as well as the Bank and the Fund will give you more detailed information on our situation and our future goals and prospects. I wished only to present to you the broad picture, to emphasize the enormity of the tasks and to renew our commitment to achieve our goals. We owe a great deal to the international community for our success so far and in the future. As you know, in close collaboration with the IMF, the World Bank, and the Asian Development Bank (AsDB), the Royal Government of Cambodia has formulated its medium-term macroeconomic program as outlined in the policy framework paper. We are convinced that these measures are necessary for establishing a firm foundation for our future. We have taken several difficult steps to strictly adhere to the stipulations in these agreements, and we are fully committed to pursuing this path.

Coming from one of the world's poorest countries, which is emerging proudly and with determination from its two decades of tragic past, I would like to make three special appeals to this high-level body and, through it, to the international community at large. First, even while world concern and daily headlines are focused on conflict-containing operations in various parts of the globe, it is extremely important that priority attention continues to be paid and that adequate funds, both through grants and concessional loans, are allocated to assisting poorer countries to develop rapidly. It is not a mere slogan that "development is the best antidote to conflict and is the underwriter of security and stability." Therefore, my first plea is to ensure full allocation and commitment to the International Development Association (IDA) and other mechanisms of concessional credit and grants. Second, countries like ours at the lower end of the economic ladder need special nurturing. The international community, including the Bank and the Fund, therefore need to apply special terms to their assistance to us so that we are able to lay firm foundations without unduly overburdening our future generations with debt. I would therefore urge that more funds be made available on grant terms, especially for capacity-building efforts through either trust funds or other mechanisms or through the creation of special windows. Last, but by no means least, I would appeal for maximum resources to be allocated under these two windows for prioritized assistance to the neediest countries, such as Cambodia.

Finally, the Royal Government of Cambodia welcomes Brunei Darussalam to the membership of these organizations.

STATEMENT BY THE GOVERNOR OF THE BANK FOR TURKEY

Ayfer Yilmaz

I will focus my remarks on the world economic outlook, on countries' implementation of the Fund's policy advice, and on the review of the Development Committee meeting.

The present outlook for the world economy is good. The industrial countries are performing well. Many of the developing countries have overcome the problems of the 1980s, and have begun to experience growth of output and investment. The transition economies whose reforms have been vigorous and successful have also begun to grow, although others whose reform process has been less consistent are stagnating.

The turnaround achieved by the debt-ridden developing countries since the 1980s involved accelerated structural reforms and stabilization. The improvement in their situation has been accompanied by increased integration of their economies into the world financial system, with effects that are mostly beneficial. The financial markets are now watching the soundness of countries' policies much more closely, and can react more swiftly to any inconsistencies, and policymakers now have less room to make mistakes. The growing integration of the global market also increases the speed with which shocks to one part of the system can spread to other countries which are not involved in the conditions which caused the crisis.

During last spring's meetings in Washington, we therefore stressed the need to give more continuity to the surveillance process and more frankness to the Fund's policy advice, and how important it is for countries to provide timely and comprehensive economic data to the Fund and even to the public.

We welcome the recent appreciation of the U.S. dollar and depreciations of the Japanese yen and the deutsche mark, which should improve prospects for the continuation of noninflationary growth. Indeed, exchange rate policies now merit particular attention from the Fund. The globalization of the financial markets has changed the parameters of the international monetary system, and the Fund and its members need to adopt themselves to this new environment. It is now time to translate these agreed general principles into operational guidelines to help improve the Fund's surveillance. I join my colleagues in welcoming the conclusions of the Halifax summit and the first monthly review of policy actions taken in response to the Madrid Declaration.

The integration of the emerging markets into the global capital markets has been accompanied by an acceleration of capital inflows into those countries, bringing both benefits and problems. Mexico's experience shows how quickly such inflows can reverse to become outflows, causing serious economic disruption.

Strengthened surveillance will help avoid such emergencies but should be accompanied by a mechanism for rapid and temporary balance of payment support, with appropriate conditionality, in case they occur. Fund interventions may also be needed to avert spillover effects and soften the effects of market failures, for example overreactions caused by defective information. The radical adaptation required to meet these new challenges is shown by the number of topics on the Interim Committee's agenda: the Eleventh General Review of Quotas, the emergency financing mechanism, the currency stabilization fund, the SDR equity issues, and the review of the SDR's role. Indeed, the Fund's financing is more important than ever.

New initiatives such as the emergency financing mechanism, giving faster access to Fund resources with strong conditionality and front-loaded disbursements in crisis situations, and the currency stabilization fund approach to exchange rate problems, will require us to look at the whole range of available financing options, including an increase of quotas. While we strongly believe the Fund must remain a quota-based institution, we also support exploring the possibility of expanding the General Arrangements to Borrow (GAB), but insist that any enlargement of the GAB should not be regarded as a substitute for an increase under the Eleventh Quota Review.

In addition, the poorest countries continue to need financial support on concessional terms to avoid debt-servicing problems. The ESAF facility provides an appropriate blend of structural conditionality and concessionality. I therefore agree that we should explore ways of continuing this support after the resources under the current ESAF extension have been fully committed.

We also need to seek ways of ensuring the best use of the present resources of the World Bank and other multilateral development banks. We have expressed concern during Development Committee meetings about the expected decline in official development assistance, and urged strong support of the International Development Association and the special program of assistance for Africa. We welcome the Copenhagen social summit's focus on the role of public expenditures in achieving the goal of poverty reduction.

We also support the new format for future Development Committee meetings which will focus more on issues of Bank policy and other matters of broad significance for development. The present Annual Meeting promises to open new avenues for a much broader collaborative effort within the international community to ensure the smooth and rapid functioning of the international financial markets and make them more resistant and resilient in the face of the challenges of the new century.

Turning now to the Turkish economy, it is a pleasure to report that on the whole, the results of our 1995 program have lived up to expectations. While inflation has not declined as rapidly as we would have liked, it has nonetheless begun a downward trend. Favorable expectations about inflation and the success of our program are already reflected in the Treasury's ability to borrow significant amounts at declining real and nominal interest rates and longer maturities.

Exports have grown strongly and were about 30 percent higher in the first six months of 1995 compared with the same period in 1994. While output was recovering faster than expected, however, imports also increased, and were 42.7 percent higher in the first six months of 1995 than during the same period in 1994. These trends during the first half of 1995 resulted in a trade deficit of $4.9 billion, about $1.7 billion higher than program projections. The balance of payments projection has therefore been revised to predict a small deficit on the order of $300 million instead of the previously expected surplus of $1.2 billion. This picture appears to us consistent with ongoing economic recovery and rebuilding of inventories.

Foreign direct investment remains important for Turkey. The Turkish Government encourages foreign direct investment and has made great strides toward improving the investment climate during the last decade. The conclusion of the Customs Union and the establishment of confidence in the environment is expected to increase foreign investment flows.

Given the particularly difficult economic situation prevailing when the stabilization program was adopted in April 1994, Turkey has made good progress. The most important lesson of the stabilization program is that its success is our own success: we have earned it.

The adjustment program received the full support of the IMF in the form of a stand-by arrangement. When the Executive Board of the IMF approved the program targets for 1995, this arrangement was extended by six months until February 1996 with an accompanying increase in access of SDR 101.2 million. The implementation of financial policies has so far been consistent with program targets. All performance criteria for end-March and end-June have been met with considerable margins. On September 18, 1995, the third review of the stand-by arrangement was approved by the Executive Board and the fifth tranche, amounting to SDR 75 million, was released.

In addition, the steps taken to comply with Turkey's commitment to completion of the Customs Union and to conform to the provisions of the Uruguay Round Final Act are certain to increase trade, improve Turkey's access to various markets, and thus help build confidence.

Despite the gains I have just noted, however, the stabilization program has not yet translated into restored market confidence, mainly due to setbacks in carrying out needed structural reforms. Privatization will be the key to reshaping the economy. Progress in this area will rebuild policy credibility by promoting real changes in the structure of the economy.

Let me finish by reiterating Turkey’s commitment to becoming an active partner in the global economic and political system. While meeting the conditions which have been set in the international arena will undoubtedly be difficult, we do not consider these difficulties insurmountable.

Statement by the Governor of the Bank for the Lao People’s Democratic Republic

Xaysomphone Phomvihane

First, the delegation of the Lao People’s Democratic Republic would like to express its sincere condolences for the passing away of Mr. Lewis Preston, former President of the World Bank Group.

Our delegation is pleased and very honored to participate in the Fiftieth Annual Meetings of the World Bank Group and the International Monetary Fund, especially myself, recently appointed Minister of Finance and Governor of the Bank for the Lao PDR, as I attend the Meetings for the first time.

On behalf of the Government of the Lao People’s Democratic Republic, we wish to welcome the new President, Mr. James Wolfensohn. We also convey our warm greetings to the Chair of these Meetings and to the management of the World Bank Group, the Managing Director of the Fund, and to the Governors and delegates of all member countries. We join our fellow Governors in welcoming the new member of the two institutions. On this occasion, we also would like to thank the host country for its warm hospitality.

Overall, the global economic growth carried on in 1995, especially in the developing countries such as those of the East Asia region. But growth in industrial countries was sustained at a lower pace than the forecasts. The uneven growth among regions is partially due to the foreign exchange volatility that caused a deterioration of the balance of payments and affected the weight of the debt either because of the depreciation of the dollar or the strengthening of the yen.

Besides the economic growth in some regions, poverty and natural calamity are still tremendous obstacles to development. Among others, our country is affected by natural calamities, which affect negatively the living conditions and the assets of our people, as our growth rate is highly susceptible to the fluctuations of our agricultural sector. To face these problems, more external funds are needed not only to sustain economic development but also to maintain equitable social development and to spur the preservation of the environment. Therefore, the Government of the Lao People's Democratic Republic, as a member of the World Bank, requests all donors and member countries to continue their contributions to the Tenth Replenishment of IDA to reach the total approved amount, as well as that of IDA-11. We also support the Bank's strategic priorities, particularly on poverty alleviation, human resource development, use of natural resources, and environmental sustainability.

The socioeconomic development policies of our Government allow all economic sectors to participate in development. Special attention is given to strengthening the role of the private sector and to increasing the participation of the people, and concurrently to attract foreign investment. In order to support these policies, the National Assembly is about to adopt new laws, such as a law on domestic investment promotion and a new tax law.

In the social and economic development plan to the year 2000, our Government has focused on eight priority programs: food production, stabilization of cultivation, commercial production, rural development, human resource development, expansion of foreign economic relations, infrastructure development, and upgrading the quality of the service system.

To overcome the poverty status of our country, our Government will concentrate on the development of hydropower, which is our major natural potential if we preserve our environment. Concomitantly, we also set out a plan for the development of adequate physical infrastructure, such as roads, to benefit from our geographical position as a crossroads for regional trade routes and to ensure the expansion of foreign relations, in particular with Southeast Asian countries. Our Government will improve the tariff system and will enter into discussions on tax and tariff issues with friendly countries. Our Government is focusing on investment in agro-forestry processing to exploit natural resources in a sustainable and efficient way. This leads naturally to other important concerns of our Government, which are the preservation of the environment, human resource development, promotion of women, and social programs to improve the living conditions of the people.

The Government and the people of the Lao People's Democratic Republic recognize that the continued assistance from the World Bank and the International Monetary Fund is a substantial resource that actively contributes to the development and the economic reform of the Lao PDR. Particularly, structural and adjustment credits support our economic reforms with some success to date. In the last years, our economy is on a good trend. Inflation rates were satisfactorily reduced. Foreign exchange rates have remained stable, and the deficit in the balance of payments has been reduced due to increasing exports. Furthermore, foreign investment increased in all sectors. The macroeconomic targets were attained thanks to the overall efforts of our Government.

The year 1995 is the year for the Lao people and the Lao Government to celebrate the twentieth anniversary of its foundation. This was the year also when the Government revised the price policy, the tariff structure, and the taxation system, and adopted floating of the exchange rate and trade liberalization, along with a rational management of the macroeconomy. Macroeconomic stability depends not only on economic reform, but also on the external environment, such as a favorable worldwide economic climate, external financial support and the expansion of external trade. We, therefore, call on industrial countries to provide for flexible trade policy towards developing countries and to continue to increase their financial support, especially to contribute to ADF-7 of the Asian Development Bank.

Our Government sincerely thanks all countries, international organizations, nongovernmental organizations, and international institutions such as the World Bank Group and the International Monetary Fund for their continued and increased assistance. We especially thank the World Bank for confirming concessional loans amounting to a total of $341 million from 1996 to 1998. The Asian Development Bank has committed to providing grant funds and concessional loans for 1995–98 of $328 million. By implementing a consistent policy of expanding foreign economic relations, we believe that international institutions and other donor countries will continue and will increase cooperation in providing grants, concessional loans, and technical assistance; promoting private investment, and creating opportunities in trade relations with our country.

To conclude, I would like to present our best wishes of success to the Meetings.

Statement by the Governor of the Bank for Fiji

Berenado Vunibobo

It is an honor to attend the Fiftieth Joint Annual Meetings of the World Bank Group and the International Monetary Fund. On behalf of the Government of the Republic of Fiji, I wish to take this opportunity to express our sincere regret on the untimely death in May this year of the former President of the Bank, Mr. Lewis Preston. I would also like to join other Governors in welcoming the new President, Mr. James Wolfensohn, to his first Joint Annual Meetings and wish him well in his tenure. I warmly welcome Brunei Darussalam to the membership of the Bank and the Fund.

The global economic outlook has been adequately analyzed by fellow Governors and in staff documents. Economic trends seem to increasingly indicate that the upturn in the major industrialized countries during the last three years is in danger of losing momentum. The unsynchronized performance amongst the leading economies is a stark indication of the lack of economic convergence, which underlies the continuing turbulence in the international markets.

I am convinced that the greatest risk to sustained global growth is still inflation. I believe that price stability must remain at the top of our economic agenda. Industrial countries must lead the way. Price pressures are building up. We must seize the opportunity to proactively nip these inflationary pressures in the bud.

On developing countries as a group, I am encouraged by the continuing strong performance, although there are significant variations amongst regions and individual countries. The commendable track record of developing countries is a testimony to the difficult economic and structural reforms that they have put in place. However, the efforts of developing economies have not been helped by the intense and regular volatility in the global exchange market. The contagion effects of this turbulence are rapidly transmitted to emerging markets, destabilize debt servicing, and complicate reform implementation. We therefore welcome the proposed introduction of the currency stabilization facility by the Fund. However, we must realize that the facility on its own does not address the root of the problem. It must be accompanied by proper macroeconomic strategies. Furthermore, as recent events have indicated, the establishment of an informal exchange rate target zone will be difficult to maintain for any considerable length of time. The only sustainable answer is for industrialized countries to actively pursue economic convergence through appropriate policies and structural reforms.

Exchange rate stability is at the core of the Fund's charter. Surveillance is the main instrument of this objective. I welcome the strengthening of the Fund's ability in this critical area. Nevertheless, I would like to suggest that the Fund's surveillance still needs to be more focused. Development in small member countries such as Fiji can hardly cause a ripple on the world scene. The industrial countries very much hold the balance of order in the world markets. The proposed dual standards of data reporting to the Fund must reflect this relativity. Furthermore, the Fund must pursue opportunities to represent its views in the main international forums.

The recent market volatility has been enhanced by greater capital mobility across borders and time zones. In developing countries, the struggle to restructure and develop a more efficient economy will take time. During this market liberalization process, developing countries become extremely vulnerable to large fluctuations in world market conditions. Capital controls offer essential support. Therefore, I urge the Fund to resist the move to make capital liberalization mandatory under the Articles of Agreement. Instead, the Fund could continue to advise members on a case-by-case basis under the current Article IV consultation framework.

The recent Mexican crisis has taught us many lessons. In particular, the crisis severely tested the resource availability and mobilization capability of the Bretton Woods structure. Is the current liquidity sufficient in the event of another major crisis? We must urgently buttress the liquidity of the Fund and the Bank. Although I join the call for a speedy negotiation of the Tenth General Review of Quotas, I fully realize that this will take time. The strengthening of the General Arrangements to Borrow (GAB) can offer an immediate fallback solution. On the Bank side, I share in the concern at the slow implementation of IDA-10 and encourage industrial countries to fully support IDA-11 replenishment.

At this juncture, I would like to highlight three special needs of small Pacific Island countries, including Fiji. The first is the implication of agricultural liberalization in the Uruguay Round. I am pleased that the Round appears to have achieved new transparency through tariffication. However, we should not quickly ignore the honorable objectives of the agricultural negotiations under the Uruguay Round, which were "to establish a fair and market-oriented agricultural trading system, reverse protectionism and remove trade distortions in agricultural trade." Regrettably, I am disappointed that the Round has brought about substantially less liberalization than had been expected. Instead, most developed countries have established new base tariffs that reflect even higher protection than had been provided by the nontariff barriers that they replaced. As a consequence, it is highly likely that tariff rates in the year 2000 and beyond will remain very high on many agricultural products and, in many cases, as high as, or even higher than, effective rates prior to the agreement.

The implication of such developments on predominantly agro-based economies like Fiji can be devastating. As net food importers, Fiji will be confronted with higher world prices. At the same time, the loss in preferential treatment for its exports may not be offset fully by new access to the markets of industrial countries.

My second point concerns the role of the Bretton Woods institutions in the promotion of private sector activities in the South Pacific region. I welcome the Bank and the Fund's increasing recognition of the critical role of the private sector in development. I endorse the Bank's current strategies, which encompass public enterprise reforms and privatizations as well as creating an enabling investment environment through market liberalization and deregulation. However, I see a need for the Bank to sharpen its vision and to better coordinate its strategies in these areas, especially for IDA and transition countries. I believe that one of the important conditions for effective private sector development is the presence of a strong financial sector. In this regard, Fiji continues to see many opportunities where IFC's South Pacific Project Facility and the Foreign Investment Advisory Service in Sydney can gain more visibility with private entrepreneurs in the Islands. We also welcome IFC's decision to establish a separate pilot Pacific Islands Quasi-Equity Investment Fund in Sydney, and we hope that this can become a permanent feature of the Bank's assistance to the private sector in the region.

Fiji is among many South Pacific Island countries that are undertaking structural reforms designed to facilitate export-led growth, where the private sector is the driving force of the economy. These adjustments are not easy, nor are they painless. However, these small island countries, despite limited resource endowments, continue to persevere and, at the same time, honor all their international obligations. They, therefore, deserve the active support of the international community, particularly the Bank and the Fund. We call once again on the two institutions to be innovative in generating flexible solutions to the special situations of small island countries in the South Pacific. At the same time, we reiterate our caution to avoid treating all South Pacific island countries with the same generalities, as there are critical differences in key areas such as industries, institutions, and market sophistication. Economic policy advice and programs, including their implementation and sequencing, must therefore be country specific.

My final point is on the future direction of the Bank and the Fund in the Pacific region. We have read with interest the Bank's recent review of its operations in the region entitled "Pacific Island Economies: Building a Resilient Economic Base for the Twenty-First Century." We fully endorse the salient features of the report. We are greatly encouraged by the main conclusion of the report, that "an outward oriented investment-led growth strategy is needed—but not necessarily along the path of labor intensive agriculture and manufacturing witnessed in the early stages of East Asian growth." Such a strategic statement has reassured us of the future of our tourism and services industries. The report has also put forward convincing arguments regarding the need to obtain higher returns from our natural capital such as fisheries and forestry.

In our assessment, the borrowing needs of island nations in the Pacific, by world standards, will remain modest and will be mainly for financing the construction of our infrastructure, although we will welcome the Bank and the Fund's stronger involvement in human resource development in the region. In Fiji, privatization and the development of the financial sector are some of the specific areas where future assistance of the Bank and the Fund can be focused. However, the bulk of our needs will continue to be in policy advice and technical assistance. Therefore, we urge the Bretton Woods institutions to avoid any reduction in their technical assistance programs. On the Bank side, we specifically request that it continue to undertake economic and sector work both on a country and regional basis. These studies should form the basis of the Bank's future lending activities in the region in the years to come.

We fully support the efficiency measures being implemented in the Bank and the Fund. We, however, strongly urge the twin institutions not to discard the needs of their smaller members in their quest to streamline resources. By the same token, while we fully support the efforts to make the Bank leaner and more cost conscious, we warn that the quality of its projects should not be compromised.

I conclude by thanking the Bank and the Fund for their past and ongoing assistance and support to Fiji. The Fund's Technical Assistance Center based in Suva has proved very effective, and we are keen to see continued Fund involvement in this area. Valuable assistance was also extended to the country by both institutions in the areas of economic assessment and advice, review of government incentive structures, and bank supervision.