STATEMENT BY THE GOVERNOR OF THE BANK FOR MALAYSIA

Dato' Seri Anwar bin Ibrahim

Allow me to begin by commending the World Bank and the IMF for having successfully initiated promarket growth policies that have altered the global economic scene. This has resulted in not only raising the prosperity of member countries but also alleviating poverty, particularly in the poorer nations.

The Southeast Asian region has experienced a decade of high growth, which has enabled countries to undertake several economic and financial reforms together with greater liberalization. The region's long-term economic prospects remain strong. However, the recent depreciation of the region's currencies illustrates that sound policies are no guarantee against speculative activities. In the light of recent developments, there is a need to focus attention on the problems that should be addressed, especially when these problems are faced by countries with less sophisticated financial systems.

Malaysia has always been committed to a market-driven economy and has pursued a consistent program to reduce the role of government and promote private sector initiative in the growth process. Our commitment to a market-based financial sector started with the flotation of the ringgit as early as 1973, followed by liberalization of the financial system. In an open environment, to be sure, volatility will be experienced from time to time.

Though the openness has led to problems, it is not necessarily true, however, that financial crises in any one country would lead to systemic ramifications elsewhere in the region. Nevertheless, the contagion effects of the crisis in Thailand, for example, have reached an intensity beyond our expectations, to no small extent aggravated by the workings of unscrupulous speculators. All this has led to a cumulative psychological effect of viewing the entire region in turmoil. It is therefore necessary to put things in the proper perspective and not view recent and current developments outside of their proper context. We have indeed the political resolve to put the appropriate macroeconomic policies in place. Nevertheless, we should not be befuddled by statistical abstractions into prescribing macroeconomic policies divorced from social realities.

In the light of recent developments, the Fund has an important role to play to assist countries in curbing the tendency for markets to overreact to any perceived contagion effects. An important first step was the launch of the Fund's Special Data Dissemination Standard (SDDS). Unfortunately, the provision of timely and comprehensive data has not been sufficient.

Market players have a tendency to overreact to isolated events and sometimes exaggerate them.

Another significant step is the recent emphasis by the IMF's Managing Director on the importance of peer pressure to ensure that countries adopt appropriate policies. In the ASEAN region, we have finalized a framework to facilitate effective consultations and discussions. In this regard, I would like to propose two initiatives to promote greater cooperation in order to facilitate further liberalization and integration of financial markets while avoiding any destabilizing consequences.

First, work on the SDDS must be expanded to enhance transparency of the activities of all market players. For example, the Fund could promote international coordination in the supervision of financial markets through the establishment of a global trade information system for foreign exchange markets to allow authorities to monitor trading activities in the global marketplace.

Second, the Fund could devise a framework to enable countries to adapt and cope more effectively with market excesses associated with destabilizing capital flows. It is not sufficient that only member countries abide by Fund advice and observe "international rules." Similar rules should also be designed to encourage capital market participants to contribute towards the efficient functioning of the market mechanism. This framework could include rules and principles on ethical and professional standards, stronger disclosure requirements, and regular contacts between the managers of leveraged funds and banking supervisors. This framework should be facilitated by agreement on the provision of information on leveraged fund activities and arrangements for the home country supervisors to share information with the host country supervisors on the activities of these funds.

The recent financial turbulence in the region is not without its positive developments. We have witnessed the mobilization of regional financial support for Thailand. The IMF played a catalytic role in this exercise with several bilateral contributions from Asian countries. The expeditious response of the IMF and the Asian countries in providing a $17.2 billion facility is a unique demonstration of regional solidarity. The financial turbulence has provided the impetus for the formation of a forum to discuss common regional issues, as well as explore remedial policy action. This forum now provides a basis for the establishment of a facility to enhance efforts towards economic and financial stability to support macroeconomic adjustment.

We are committed to the liberalization process because we have seen and we have enjoyed the results, but multilateral institutions such as the IMF must be prepared to view the predicament of emerging economies in their efforts to deal with the volatility of their markets caused by unscrupulous speculators. Therefore the speed and space of liberalization should be contingent upon the mechanisms being put in place. In this regard, the IMF should initiate a study and introduce measures to ensure market stability.

While asking the IMF to assume a larger role to ensure monetary stability, I have not forgotten the very critical role of the World Bank in helping to raise living standards and alleviate the plight of poor nations. The benefits of strong economic growth continue to be denied to the poorest nations largely because of their large and unsustainable debts. We are concerned that progress on the implementation of the HIPC-ESAF Initiative to help poorer members exit from the debt trap has been slow. We support the call for greater flexibility in implementing this initiative so that more countries will benefit. To achieve this, it is essential that we all make firm financial commitments. Malaysia is prepared to commit our second Special Contingency Account balances as well as bilateral contributions, based on an equitable burden-sharing formula.

On combating corruption and improving governance, we attach great significance to this exercise as unchecked they could undermine macroeconomic stability and sustainable development. In this regard, we support the relevant strategies and guidelines recently issued by the Bank and the Fund. However, the final responsibility rests with the member countries to strengthen their own policies and institutions. It is also crucial that those guidelines should not be prescribed on the assumption that corruption and financial mismanagement occur only in developing countries.

We recognize the importance of the private sector in the process of development and welcome the recent agreement to increase the capital of the Multilateral Investment Guarantee Agency.

It is disturbing to note that official development assistance to developing countries continues to decline despite evidence of rising poverty in many countries. Of particular concern is that scarce financial resources that could be used to finance long-term development in poor countries are instead being utilized to fund peacekeeping and emergency activities. I therefore urge donor countries to renew their commitment to official development assistance through a smart partnership between donors and recipients. While donors provide the necessary financing, the recipients must reciprocate by demonstrating maturity and responsibility in utilizing these funds.

While the poor and disadvantaged must not be forgotten, the recent currency developments in this region have also driven home the need for us to rededicate ourselves to the cause of closer international monetary cooperation. It is essential that the World Bank and the IMF act in the true spirit of global partnership to ensure that the future shape of the world economy and its financial system will be such that they promote growth and an equitable sharing of the fruits of development with stability.

Statement by the Governor of the Bank for Malta

Leo Brincat

It is a privilege and an honor for me to address the Annual Meetings of the International Monetary Fund and the World Bank. I would like to begin by thanking the government of China and the Hong Kong Authorities for their warm welcome and kind hospitality.

Since the last Annual Meetings of the Fund and the Bank, the world economic outlook has remained positive and prospects for the coming year continue to show that there will be a further expansion in world output and trade. Among the advanced countries, economic growth has been relatively strong, with expectations for a continued recovery of the Japanese economy and a stronger growth performance in the continental European countries. At the same time, inflation has continued to decline to historic lows and this is being reflected in the downward movement of interest rates. Meanwhile, in many developing countries, the sustained implementation of sound macroeconomic policies is expected to continue to boost economic growth, especially in the Middle East region and Africa, where prospects are expected to remain favorable. At the same time, the recent abatement of overheating pressures in many of the emerging market economies, particularly in Asia, will help them to retain a noninflationary economic expansion. Finally, prospects for strong growth in the transition economies have increased as a result of the successful measures taken in these countries to control inflation and implement structural reforms.

While these positive economic developments are certainly encouraging, they should not bring about an air of complacency—since there are still challenges that policymakers have yet to address. Thus, in the Anglo-Saxon countries, the main challenge faced by policymakers is that of maintaining an adequate level of economic growth while preventing a resurgence of inflation. In most of the continental European countries, it is the need to tackle labor market rigidities in order to reduce high structural unemployment—even while they strive to cut their fiscal deficits in order to meet the convergence criteria laid down in the Maastricht Treaty in preparation for monetary union. In the case of the developing economies, especially in Asia, a major problem remains the need to reduce large current account deficits. In the least developed countries, on the other hand, the growth rate of per capita income needs to be increased substantially in order to achieve a significant reduction of poverty.

Notwithstanding these problems, it cannot be denied that there have been many positive developments over the last year. The World Trade Organization (WTO) met in December 1996 in Singapore for its first Ministerial Conference since it was established in 1995, to review the progress achieved in implementing multilateral trade agreements and to establish its future work program. This was a successful meeting, during which ministers of countries accounting for more than 90 percent of trade in information technology products agreed to sign an agreement to liberalize global trade in such products. Ministers also agreed on new issues to be included on the WTO agenda—such as labor, investment, competition, and corruption. The prospects of further trade liberalization are welcome as they provide opportunities of further economic growth and a better allocation of resources to all countries participating in the multilateral trading system, even though trade liberalization might adversely affect some segments of society in the short run.

The last year also saw the successful start, by the Fund, of the implementation of the Initiative for Heavily Indebted Poor Countries (HIPC Initiative) through special Enhanced Structural Adjustment Facility (ESAF) operations, and notably with the decision by the IMF's Executive Board to provide assistance to Uganda under the initiative and to consider the cases of three other countries. The HIPC Initiative is critical to help ensure the full participation of the poorer countries in the expansion of global trade and investment. Moreover, this initiative fills a gap in the area of economic aid, as it deals with heavily indebted poor countries that are following sound economic policies, and for which other traditional debt-relief programs are inadequate to ensure a sustainable debt position over the medium term. I am glad to say that Malta, though its resources are limited, is contributing to the HIPC Initiative through the funds it has accumulated in the second Special Contingent Account.

The New Arrangements to Borrow (NAB), which were adopted by the Fund over the past year, should also enable the Fund to respond more promptly to balance of payments crises that might threaten the stability of the international monetary system and the world economy. The need for such supplementary credit lines had become evident during the Mexican peso crisis two years ago, when it was recognized that all countries stood to suffer from the lack of international cooperation mechanisms designed to meet such emergency situations. The new arrangements will surely enable the Fund to fulfil its role as overseer of the international monetary system more effectively.

We are also happy to observe that the Fund is continuously strengthening its surveillance procedures. In today's ever-changing and more integrated world economy, it is essential that the Fund constantly monitor the economic performance of member countries, particularly those that have a significant impact on global economic developments. An important development in connection with surveillance is the increased attention being given to issues concerning members' banking and financial sectors. There is a need in many countries to develop a framework for sound banking practices, since these have important implications for macroeconomic policy and for international monetary and economic cooperation. The Fund should thus continue to promote sound practices and be in a position to alert members to address weaknesses in their banking system. In this context, the Fund's technical assistance program has a vital role to play in supporting members' drive to enhance their prudential financial regulatory regime.

In this regard I am pleased to say that in Malta we are placing great emphasis on strengthening and upgrading banking supervision, and we are indeed grateful for the technical assistance provided by the Fund last year in this respect. The Central Bank of Malta, which is the competent authority in this regard, continues to give priority to the conduct of intensive on-site and off-site inspections in order to evaluate the soundness of credit institutions and ensure that they are complying with banking regulations. It has, moreover, been the policy of the Maltese monetary authorities to constantly upgrade and review the regulatory and prudential regime, so as to ensure that it attains recognized international standards. Towards this end, most of the recommendations of the Bank for International Settlements' (BIS) Banking Supervisory Committee have been adopted in Malta. The Central Bank of Malta is now in the process of introducing a capital adequacy directive on the same lines as the BIS and European Union directives. The Central Bank of Malta has also accentuated its efforts to combat money laundering, through the issue of guidance notes to local credit and financial institutions and the strengthening of cross-border collaboration.

The proposal to amend the Fund's Articles of Agreement so as to make the promotion of capital account liberalization a specific goal of the IMF and to give it appropriate jurisdiction over capital movements can also be viewed as a step towards achieving more comprehensive surveillance. An open and liberal system of capital movements should ensure that financial resources are put to the most productive uses and is thus beneficial to the world economy. However, currency crises—such as the Mexican peso crisis last year and the recent crises in Southeast Asia—are usually triggered by large capital movements. Thus, it is important that capital movements should be carefully monitored, so as to enable the international community to foresee and prevent such crises. In this regard, while the Maltese authorities have made the liberalization of capital movements a final goal in their program of liberalization of the Maltese economy, they are adopting a gradual and cautious approach to the matter, giving due attention to the correct sequencing of liberalization measures, so as to avoid disruptive shocks to the Maltese financial system. Such a gradualist approach is especially important for small open economies given their disproportionately high vulnerability to abrupt speculation-led changes in capital flows.

The Fund has also continued to develop statistical standards to guide member countries in the dissemination of economic and financial statistics. Early this year, the framework for the General Data Dissemination System (GDDS) was endorsed by the Board of the Fund. This will enable countries that have not yet subscribed to the Special Data Dissemination Standard (SDDS) to publish data in a less prescriptive form until they are able to achieve the higher standards required by the SDDS. Malta has for the time being opted for the GDDS. However, it is the intention of the Maltese government to attain the standards and eventually accept the obligations of the more demanding SDDS. The government is in fact taking steps to strengthen and upgrade the compilation of statistics, and legislation will soon be introduced providing for the establishment of a National Institute of Statistics with a high degree of autonomy and the necessary resources to produce and publish all the relevant statistical information on a timely basis.

Another notable development last year was the progress made towards establishing Economic and Monetary Union in Europe. Without doubt, the advent of the single European currency will be one of the most important developments in international monetary cooperation of the post–Bretton Woods era. The introduction of the euro will have wide implications for the international monetary system and for the world. For Malta, with its geographical proximity and close trade links with Europe, the implications will indeed be far reaching. We are, therefore, following developments in this area very closely.

With regard to the IMF's liquidity position, the Fund's usable resources have been decreasing over the past few years on account of the heavy demands being made on them by a number of large countries that are restructuring their economies. As this strong demand on the Fund's financial resources is expected to continue over the next few years, Malta notes with satisfaction the agreement reached on quota increases in the Fund's Executive Board. We hope that procedures will be stepped up to allow the quotas to become effective at an early date. With regards to an SDR allocation, Malta is also pleased to see that the resolution presented to members takes into consideration the issue of equity for member countries that have not participated in previous allocations.

Finally, please allow me to elaborate slightly on what has been happening in Malta during recent years. The monetary authorities have continued to upgrade and amend Malta's banking and financial legislation to take into account the latest international and domestic developments, with the overriding objective of ensuring that Malta can stand out as a financial center of repute. As a result, Malta has successfully managed to attract additional international banking and financial institutions to its shores. At the same time, Malta enjoyed relatively high economic growth rates, but these were largely fueled by an excessive level of government expenditure, which in turn led to unduly high rates of private consumption spending, the greater part of which was on foreign goods and services. This has given rise to an unsustainable series of fiscal and external imbalances, which, if not addressed, could exert irreparable damage to the Maltese economy. My government, which took office in late October 1996, has set as one of its major priorities a stabilization policy designed to correct these imbalances. The government is thus moving along the guidelines indicated during the last IMF Article IV consultation mission that took place early this year. Indeed, the government is trying to find solutions to reduce its fiscal deficit, particularly by minimizing waste and unproductive expenditure, restructuring loss-making public enterprises, and improving the revenue collection systems. Active consideration is also being given to new sources of finance.

It is expected that the measures being contemplated by the government will restore the fiscal position to a healthy sustainable level within the next two or three years. The government is also actively engaged, in full consultation with the major private sector bodies, in fostering a more effective package of incentives and economic conditions to facilitate that the private sector would be the main engine of growth within the framework of a better economy, an economy that is based on productive investment and export-led growth.

In conclusion, I would like to reaffirm the Maltese government's commitment to continued cooperation with the Fund and the Bank in their efforts to foster a stable environment conducive to global growth and development. I would also like to take this opportunity to express my gratitude to the management and staff of the Fund for the technical assistance they have given us over the years in our efforts to liberalize our economy and integrate it more fully into the global economy.

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

Puntsag Tsagaan

First of all, on behalf of the Mongolian delegation, I would like to extend our warm and cordial greetings to the Chairman, the President, the Managing Director, esteemed guests, and the other participants here at this forum. I would also like to thank the Hong Kong Monetary Authority for its excellent organizational arrangements and hospitality.

I would like to briefly focus on our experience since last year's IMF and World Bank Annual Meetings in Washington, D.C. and our plans in the near future. As you may know, the new government established in July 1996 is strongly committed to accelerating the political and economic reforms that began in our country in the 1990s. For the past year, in cooperation with, and with the support of, the IMF, the World Bank, the Asian Development Bank, and donor countries we:

- removed price controls and liberalized wages;
- reduced import restrictions, abolished customs duties—except for strong alcohol and tobacco products—and simplified the visa system for foreign visitors;
- launched a comprehensive privatization program, including both loss-making and profit-making enterprises;
- restructured insolvent commercial banks and tightened banking supervision;
- stopped subsidies to state-owned enterprises; and
- substantially changed tax legislation to create an environment conducive to private sector-led economy growth.

Moreover, the International Finance Corporation made its first investment in Mongolia. Also, in cooperation with the World Bank, we organized an international conference on foreign direct investment in oil, gas, and mining in Ulaanbaatar and approved a liberal and transparent minerals law. By great coincidence, a few days after the conference, Mongolia discovered rich deposits of high-quality oil. Finally, we have started education, health, and social safety net reforms.

For us now the first and foremost priority is macroeconomic stabilization. It is my pleasure to tell you that, as a result of those policy-oriented measures, despite the social pains and even—to some extent—resistance, a number of positive signs are occurring in our economy. These are evident in the fact that GDP growth has been positive for four consecutive years, in the further stabilization of the exchange rate, in the dramatic reduction of inflation for the first time in seven years, and in the substantial increase in the country's foreign reserves. In addition, since the implementation of a comprehensive restructuring program in late 1996, there has been a real increase in deposits with banks, which indicates that public confidence in the banking sector has been restored.

In the near future, our government plans to deepen structural adjustments and reforms, such as further strengthening the banking system; reducing the budget deficit; tightening fiscal discipline; restructuring the existing public administration and civil service to make them output-oriented, transparent, and competitive; streamlining the tax system by shifting from income taxation to consumption taxation; and improving the legal and business environment for both domestic and foreign investment, with the objective of ensuring the economy's strong and sustainable growth and improving the living standards of our citizens.

We consider that our first achievements are closely linked to the strong support of the IMF and World Bank, and I am very confident that the Bretton Woods institutions will continue to support and assist fragile but struggling small economies, such as Mongolia—in particular, in the timely implementation of our reform agenda. I would like to support President Wolfensohn's strong commitment to restructuring the Bank. I have no doubt that his efforts will lead to further improvements in the efficiency of the Bank's operations, will reduce bureaucracy, and will make the World Bank Group a more client-oriented and country-driven international institution.

I sincerely hope that the new three-year arrangement under the Enhanced Structural Adjustment Facility, approved by the IMF's Board of Directors in July 1997, will be helpful to us in implementing our reform agenda in an efficient and timely manner.

I would like to take this opportunity to thank the IMF Board members, its Managing Director, Michel Camdessus, and his staff for their tremendous efforts, patience, and cooperation in successfully concluding the new arrangement. I hope that the Bretton Woods institutions will continue to play an increasing role in helping the world community to prosper and flourish.

Statement by the Governor of the Bank for Myanmar

Win Tin

I am greatly honored to have the opportunity of addressing the 1997 Annual Meetings of the World Bank and the International Monetary Fund. At this auspicious occasion, I wish to extend my heartiest congratulations to the government and the people of the People's Republic of China for successfully holding such a prestigious international conference soon after Hong Kong's return to its motherland. I also wish to extend my sincere thanks to Prime Minister H.E. Mr. Li Peng, Deputy Prime Minister H.E. Mr. Zhu Rongji, and Chief Executive of the Hong Kong Special Administrative Region, H.E. Mr. Tung Chee-Hwa, as well as to the people of Hong Kong for their warm hospitality and the managements of the Bank and the Fund for their excellent arrangements for the meetings.

Taking this opportunity, I wish to congratulate Mr. Camdessus and Mr. Wolfensohn for their able leadership, under which their respective institutions have made due contributions to the promotion of international monetary cooperation and sustained world economic development.

We are optimistic that world economic and financial conditions are generally favorable for global economic expansion in the coming years. We observe that developments in advanced economies are turning for the better, while an increasing number of developing countries are benefiting from their pursuits of successful market-based reforms. It is most heartening to note that output contraction has been arrested and stabilized in most transition countries.

An overview of the Association of Southeast Asian Nations (ASEAN) shows that rapid growth still highlights the entire region. However, the recent currency turbulence of some countries of the ASEAN region have clearly demonstrated that these destabilization developments go beyond the realm of economic fundamentals and can be attributed to ill-intentioned speculators.

In reviewing the operations of the Fund and the Bank, a new SDR allocation is primarily beneficial for developing and transition economies, for which I am pleased to learn that a compromise solution has recently been reached. Similarly, the Eleventh General Review of Quotas also requires an early conclusion to further expand international liquidity.

Speaking of the debt burden of developing countries, the Fund and the Bank are commendable in creating the HIPC Initiative, which will eventually profit the majority of the least developed countries. Nevertheless, restricting the HIPC Initiative with too many conditions for eligible countries can be counterproductive to its purposes, even though a strong track record for heavily indebted poor countries is essential.

Let me draw your attention to recent developments in Myanmar's economy. Following the successful implementation of the Four-Year Short-Term Plan (from 1992/93 through 1995/96), which achieved an annual average growth rate of 7.5 percent, a Short-Term Five-Year Plan was initiated in 1996/97. Although the growth rate slowed down to 6.4 percent in 1996/97, the trend shows that economic growth proves to be sustainable over the medium term.

These favorable developments entail the further enhancement of market-based reforms in 1996/97 and in the first half of 1997/98. In the monetary sector, the central bank raised its interest rate from 12.5 percent to 15 percent to reflect the market situation. In macroeconomic performance, the inflation rate subsided to 20 percent in 1996/97 from 25 percent the previous year. Improvement in tax administration was further enhanced, while tariff rates were reduced significantly, pursuing the ASEAN customs rules.

In order to be in harmony with the market situation, goods produced by the state sector and those imported are now valued at market prices, depicting a departure from the past practice of pricing such goods based on the official rate of exchange. Foreign direct investment on a stock basis increased \$2.8 billion in 1996/97 to a total of \$6 billion.

While Myanmar is endeavoring for all-round development in its transitional period, maintaining sustained economic growth with macroeconomic stability is given first priority. Simultaneously, the task of building economic infrastructure, institutional infrastructure, and social infrastructure, which are in immediate need in the market-based system of the country, has been ongoing. In so doing, huge development expenditures have been incurred against the country's limited financial resources, because all multilateral financial assistance to Myanmar ceased in the latter part of 1988.

Multilateral assistance to Myanmar has been unfairly suspended because of untrue reporting by media groups and false allegations by some countries. Nevertheless, Myanmar has persistently proceeded on its path of development, achieving satisfactorily strong economic growth during the past five consecutive years. Had it enjoyed adequate financial and technical cooperation from multilateral institutions, Myanmar's economic growth could have far surpassed its present pace.

At this juncture, I am pleased to mention that Myanmar has cooperated positively with the Fund and the Bank in its 40 years of membership. Even though Myanmar is experiencing times of stringency, as it has been endeavoring for infrastructure development through its own financing arrangements, it has been punctual in servicing all its multilateral loans. Myanmar has already fulfilled its financial obligations to the Fund.

Unfortunately, following misleading allegations and unfair judgments on Myanmar's situation, under the guise of human rights violations by certain countries, it is regrettable that the Fund and the Bank have overlooked the true facts I have mentioned above and are still suspending their financial assistance as well as technical assistance to Myanmar. Although they have neglected Myanmar's relentless efforts for its development, Myanmar has received support from neighboring countries and the ASEAN nations. Our neighboring countries and ASEAN nations warmly, understandingly, and firmly have maintained close cooperation with our country.

Evidently, the warm welcome we received from the other ASEAN countries when we were accepted as its full member bears witness to the fact that Myanmar's image is contrary to that propagated by some countries and the media. Since joining ASEAN on July 23, 1997, Myanmar has been working closely with other ASEAN countries to mutually beneficial effect.

In this context, I would like to point out that the Fund and the Bank were established to provide financial and technical assistance to all member countries based on economic consideration, irrespective of political perspectives. In view of this, I would like to request that the Fund and the Bank avoid applying double standards and seriously reconsider all the points I have made above, to help resolve the pressing needs of their member country and extend tangible support to Myanmar.

As a responsible member of ASEAN, we are ready to contribute positively towards economic and political stability and harmony in the ASEAN family. By the same token, we are also eager to lend our support and cooperation to the Fund and the Bank in their regular and special operations, particularly on issues of concern to the developing countries as a group.

Statement by the Governor of the Bank for Nepal

Rabindra Nath Sharma

It is a great honor and privilege for me to address the Joint Annual Meetings of the Bretton Woods institutions in Hong Kong in the aftermath of its handover to the People's Republic of China. On behalf of my delegation, I would like to thank the organizers of the meetings for the excellent arrangements and the warm hospitality accorded to us.

Global integration has been spurred by economic and financial liberalization. Worldwide access to markets for goods and financial services has increased. Private capital flows have become a major factor in the realization of the economic potential of developing countries. However, there is growing awareness of the greater susceptibility of economies to external shocks and the wider ramifications of domestic economic and financial imbalances, including the international response that those imbalances elicit. The recent experience of Mexico and the turmoil in the currency and financial markets of Southeast Asia have reminded us of the world we live in. Events have also demonstrated, however, the willingness and ability of the international financial community to come to the assistance of countries in distress and help remedy situations of crisis. Despite strong growth in external private financing to developing countries, the continued decline in official development assistance (ODA) has been worrisome. As the majority of developing countries, including my own, are confronted with the formidable task of nation building, domestic revenue is largely inadequate to finance development programs. Despite various reform measures taken to invite private capital, it will take more years before the private sector can become a viable means of financing projects in our countries.

Allow me to say a few words about the Nepalese economy. The fiscal year ending in mid-July 1997 saw a number of improvements on the financial front. The government deficit and domestic borrowing requirement declined, domestic credit expansion was brought under control, foreign exchange reserves rose, and inflation declined to the lower-single-digit level. At the same time, government revenue mobilization and development expenditure fell significantly short of targeted levels, economic growth was relatively sluggish at about 4 percent, and the performance of key public enterprises continued to be affected by structural weaknesses. For this year our aims include further improvements in reserves, a further reduction in government borrowing, and the imposition of a legal limit on central bank financing. We will make determined efforts to enhance both revenue mobilization and the implementation of priority development projects. We have broadened the tax base in order to raise domestic revenue. Similarly, income and corporate tax rates have been reduced. Customs rates have been rationalized and reduced. It has been decided to implement a value-added tax from mid-November 1997. Privatization, facilitation of foreign investment, and improvements in public enterprise are our other priorities. This year is the first year of the Ninth Five-Year Plan, which embodies poverty alleviation as the main agenda of development. Agriculture and development of the social sector are given high priority.

We welcome the Bank's effort to help countries combat corruption and improve governance. I am happy to note the satisfactory results obtained in the implementation of the debt-reduction strategy in heavily indebted poor countries by both the World Bank and the IMF. I feel that this program needs to be continued. Nepal has successfully executed the Fund's macroeconomic stabilization programs, such as the Structural Adjustment Facility and the Enhanced Structural Adjustment Facility (ESAF), which in essence witnessed noticeable improvements in the Nepalese economy. We look forward to joining the next ESAF arrangement soon. We are thankful to the international donor community for their consistent and strong support of our economic development programs. I would like to mention here that the Nepal Aid Group meeting will be held next month in Paris. As in the past, we are confident that we will receive strong support from the members of the Nepal Aid Group.

Before I conclude, allow me to share some of my concerns with the distinguished Governors. We highly appreciate the concern shown in macroeconomic management. While it is a necessary condition, we feel that it is not a sufficient condition for the functioning of the economy of developing nations. Equally important is the concern for raising resources to finance development activities. Prudent management and judicial use of available resources are other important aspects for both the recipients and the donors. However, stringent conditionalities on aid disbursement, complicated reimbursement procedures, donor stress in financing a reduced proportion of development expenditure, and weakness in the selection of appropriate projects should be carefully addressed. Reversing the trend of ODA and significantly improving the economic and social conditions of the people in poor countries is the single biggest challenge for all of us. In the interest of both the industrial and developing countries, the former should pay greater attention to resolving the issues of the latter. The gap between the rich and the poor and the unjust and inequitable economic order should no longer continue to prevail. In this regard, the opinion expressed by Chinese Premier Li Peng deserves our utmost attention. Likewise, the exhortation by Mr. Wolfensohn, "our goal must be to reduce...disparities across and within countries to bring more and more people into the economic mainstream to promote equitable access to the benefit of development, regardless of nationality, race, and gender," deserves attention by the world community.

While Nepal is committed to sustainable growth by implementing various reform measures, it is necessary that the sequencing and timing of these reforms be realistic. We believe that only dialogue and joint efforts of the member governments, the IMF, and the Bank are likely to produce lasting reforms supporting sustainable development.

Statement by the Governor of the Bank for the Netherlands

Gerrit Zalm

I want to thank the government of the People's Republic of China and the authorities of the Hong Kong Special Administrative Region for their kind hospitality during the Annual Meetings of the World Bank and the IMF.

Globalization calls for strong multilateral institutions. The past year has proved this point once again. Both the Bank and the IMF accepted challenges in new fields, such as the Initiative for Heavily Indebted Poor Countries, currency developments in some emerging markets, amendment of the IMF's Articles of Agreement on capital liberalization, and private sector development. While the managements and staffs of both institutions stood the test, it is now time for members and shareholders to act with the same vigilance on the provision of minimal necessary financial resources. The Netherlands is ready to do so. The underfinancing of the debt initiative might endanger its successful implementation, which would be particularly unjust for countries with a strong adjustment track record. The same applies to the Multilateral Investment Guarantee Agency (MIGA), which has already been forced to cut back on the amount of new business, while demand is increasing rapidly. The Netherlands finds of the utmost importance that shareholders provide urgently needed capital as quickly as possible, with an adequate “paid-in” share. We welcome the agreement on the IMF quota increase, which provides the IMF with the necessary resources to finance the future demand for its credit. We also welcome the conclusion of the SDR discussion.

Let me indicate some points of future work for the Bank and the IMF. We welcome the ongoing work on strengthening surveillance, transparency, and early warning mechanisms by the IMF, and the upcoming discussion on new guidelines for post-program monitoring. On cooperation between the Bank and the IMF, while progress has been made, we look forward to the implementation of the financial sector strategy by both institutions and their application of the core principles of the Basle Committee. Thailand exemplifies the catalytic role of IMF financing. We want to preserve this principle in the amendment on capital liberalization—the IMF should not finance large or sustained outflows. I would stress, however, that preventing a crisis is better than solving a crisis. The recent turmoil in Southeast Asia has illustrated once again the necessity of an appropriate sequencing in connection with economic and structural reforms. This highlights capital account liberalization as a sign of strength, not weakness, and liberalization should not therefore imply increased use of IMF resources. On the policy side, we would favor further discussion by the Executive Board of the characteristics of different exchange rate regimes as well as early Board consideration of the paper on lending into arrears.

We welcome the increased attention of the World Bank Group on private sector development and feel that the recent staff proposals are a useful first step toward an integrated private sector strategy. In this strategy the comparative advantages of each member of the World Bank Group—the IBRD, the International Finance Corporation, and MIGA—should be used in order that their respective roles complement and reinforce each other to the fullest extent possible. We continue to support the efforts of the World Bank Group in implementing the reforms stemming from the Strategic Compact exercise. The first monitoring report on this issue already shows promising results. The Netherlands also supports the increased emphasis that the World Bank Group and the IMF have placed, within their respective mandates, on the promotion of good governance and the fight against corruption. We welcome the recently adopted guidelines.

In the near future, the aging population in many countries will require additional resources. Without adequate policy adjustments, public finances will deteriorate. In addition, there will be important implications for the functioning of labor and capital markets, pension systems, and balance of payments. This does not apply only to developed economies. The problem of aging will proceed even faster in developing countries. Both industrial and developing countries will need to increase incentives to save and invest and to enhance the efficiency of the pension system. We would welcome further policy-oriented work on these issues by both institutions.

In the Netherlands, several initiatives are under way in this area. A separate fund earmarked for future public pension obligations has been set up to channel additional government savings. Policy measures to increase the participation rate of people over 50 are under discussion. This could be achieved by reducing the financial incentives for early retirement and, at the same time, increasing the opportunities for training elderly workers. Privatization of pension schemes and promotion of competition between pension funds are being undertaken.

Finally, I would like to turn to the effects of the beginning of European Economic and Monetary Union (EMU). First of all, EMU will affect certain aspects of the IMF itself, for which we will have to look for practical solutions. In doing so, we must build on existing procedures and precedents on the basis of the guiding principle that the individual membership of countries in the IMF will be retained. No change will be needed in the current rights and obligations of the individual members vis-à-vis the IMF.

Furthermore, EMU will have very important historic implications for the international monetary system and could potentially lead to an improved international financial system. This requires the criteria for monetary and budgetary convergence to be strictly applied at the start of EMU. This should be followed up in Stage 3 of EMU by sound fiscal policies as set out in the Stability and Growth Pact, as well as a firm adherence to the treaty provisions regarding the independence of the European Central Bank. Only in this way can the euro zone become a zone of price stability, and the introduction of the euro will be beneficial for growth and employment in Europe, with positive effects for the world economy.

Statement by the Governor of the Fund for New Zealand

Winston Peters

We are now well into this Annual Meeting. There are some prepared comments that New Zealand will provide for the record, but in this speech it is more valuable to reflect on the events and statements of recent days, and venture some conclusions that we may draw from the meeting.

At a time when there has been some turmoil in Asian markets, some people might have thought it awkward that we should meet here in China, in the heart of Asia, to discuss financial issues. As you know, emotions have been running high as different commentators have tried to make sense of recent events. That said, the truth is, this has been the right conference, in the right place, at the right time, with the right leadership.

Because the rest of the world has joined us here in Asia, we can all see with our own eyes the dynamism and excitement of the Asian economies. The recent market fluctuations are simply a passing moment. The real story is the industry, production, and construction that characterize the booming economies in this region. Above all, the real story is the people of Asia, and their efforts. These personal efforts, combined with the capital flows in a global economy, are the secret of success.

Any of us who care to look can see success around us. And, as Premier Li Peng reminded us, “Seeing it once is better than hearing about it a hundred times.” The Premier also gave us some useful principles to think about in the context of international development. He reminded us that the free flow of capital can facilitate growth, and that, like any other policy that helps growth, it can also carry risks.

One risk is the uncertainty that is created by periods of financial instability. However, another, perhaps more serious risk, is the risk of misunderstanding each other in a fast-changing world. We need to relate to each other on a basis of equality because each country has its own social system, cultural tradition, and value system.

It is sad that in the recent exchanges of opinion, some have chosen to question Asian values. This questioning seems to reflect a Eurocentric vision, and a short-term financial focus. This narrow approach is alarming, because any international exchange must be based on mutual understanding and mutual respect. This is as important in financial exchange as it is in diplomacy.

Those who trade in Asian currencies are not merely “taking a position,” as the traders say. They are participating in a social and economic system. The heart of that system is Asian values: these are values of hard work and thrift; values of stability and loyalty, with a long-term view; and values of mutual support in the wider family. These are the values that underpin the dynamism of Asia, and it ill behooves anyone to come from the other side of the world to deride Asian values.

The results of these values are not only to be found in Hong Kong. In the past few days, some of us have visited other parts of China, including Beijing and Shanghai. The same drive and vigor that we see around us can be seen there. The construction cranes of the world are to be found here in Hong Kong, in Shanghai, in Kuala Lumpur, and in a string of other Asian cities. Those cranes are operated night and day, by people who value providing for their families through diligence and application. We should salute that effort, just like we applaud the efforts of the financial markets to deploy capital around the world.

We know that holding out against change is dangerous. However, we also know that changing so far and so fast that we forget our basic values is disastrous. The Premier's speech showed a clear way forward, both for China and for the world. Extensive cooperation in a global economy will allow everyone to prosper, but only if we remember the basic values that drive success, and if we have the courage to stick to those values. China is sticking to those values, most of Asia is sticking to those values.

Prosperity also depends on remembering the importance of open information. The lasting benefit from the events in recent months may be a wider understanding in Asia of the importance of open information so investors can make informed decisions. At the same time, traders from Europe and the Americas will need to use such information to distinguish the performance of different Asian countries. After all, no one would shift their money out of Europe because of problems in one country. It is just the same here: problems in one country should not be seen as a problem throughout Asia.

The gain to those who have come from around the world to this conference is that we can all look, see, learn, and understand. It is that mutual understanding and respect that will underpin world growth.

World Economic Outlook

The world as a whole is growing at about 4½ percent a year, the highest growth for a decade. World inflation is at its lowest since the early 1960s. The United States and the United Kingdom, early starters in the current phase of global growth, have seen a pickup in growth in 1997. Tight labor markets and high levels of capacity utilization have inflationary potential but to date price pressures have remained moderate. Australia is poised for stronger growth given the interest rate reductions seen over the past year and signs of recovery in the housing market. Japan and continental Europe on the other hand remain laggards in the current expansion. While both are benefiting from stronger exports, structural problems—and in Europe's case adjustment to Economic and Monetary Union—could work against significant upturns in growth.

Robust growth continues in most of the developing world, particularly in China and much of Asia. However, the currency turmoil that has recently hit the Southeast Asian currency markets serves as a reminder of the vulnerability of emerging market economies to changes in investor sentiment.

Compared with the recent past the world appears to be on a more sustainable growth path. However, there are risks to this upbeat outlook including slower than expected growth in Japan and Europe, the possibility of lower growth in Southeast Asia, and a correction of the currently strong major world equity markets.

As an open economy, New Zealand stands to gain from a global economic situation of sustained low inflation growth. World trade also continues to grow at a rapid pace. While the growth in the volume of world trade has fallen back from the exceptional 9 percent a year seen in 1994 and 1995, trade is still expected to grow at about 7 percent a year both this year and next. In the short term there are clearly some risks for New Zealand's exports given the fragility of the recovery in Japan, our third largest trading partner, and the potential repercussions on growth in the Southeast Asian region, a growing destination for exports, stemming from the recent currency turmoil. Set against this, however, the recent fall in the value of the New Zealand dollar, if sustained, should help exporters compete in world markets.

New Zealand's Experience with Labor and Product Market Reforms

An extensive agenda of reforms has allowed the price system to emerge as the dominant signal for investment, production, and consumption decisions. The major changes implemented include removal of controls on prices, interest rates, and wages; removal of agricultural subsidies and price supports; removal of quantitative import controls and sharp reductions in tariffs; and deregulation of the oil, banking, and transport industries. The corporatization and privatization of state-owned enterprises, in conjunction with the removal of restrictions to competition, has further liberalized many markets such as telecommunications and aviation. The labor market—both the private and public sector—has also been deregulated to permit more flexible patterns of wage bargaining to develop.

Recent Instability in Asian Region

Sustained annual growth rates of 7 percent or more enjoyed by many of the Southeast Asian countries for the past decade have been the envy of the rest of the world. However, recent months have seen a wave of speculation against many of the currencies starting in May with sustained pressure on the Thai baht leading to depreciations in Thailand and a number of other countries in July. Foreign investors focused on weaknesses that certain Asian countries, namely Thailand, Indonesia, Malaysia, and the Philippines, were perceived to have in common. Such weaknesses included large current account deficits, currencies linked to the U.S. dollar, and oversupply in property markets.

The currency sell-offs in the region, however, have been more a product of guilt by association rather than a result of necessarily shared weaknesses. Thailand stands out among the countries affected in that it has been running a large current account deficit, equivalent to about 8 percent of GDP, financed by a significant amount of short-term capital inflows, very much like Mexico in 1994. Investor concerns were exacerbated by Thailand's fragile banking system. Spillovers from the crisis in Thailand have been felt by fundamentally more sound currencies such as the Singapore and Hong Kong dollars. There are clear distinctions to be made between Thailand and its immediate neighbors. Indonesia's current account deficit, for example, is not particularly high while the Philippines is somewhat behind some of the other Southeast Asian countries in terms of development and is not suffering from a property glut.

IMF Capital Account Liberalization Proposal

New Zealand strongly agrees with the desirability of greater liberalization of international capital flows. A liberal regime is an important element of a sound policy mix. International capital flows help ensure that resources are channeled to their most productive uses and help investors and savers to diversify their portfolios, thereby increasing economic growth.

The IMF, as the overseer of the international monetary system, is well placed to advise members on the benefits of capital account liberalization, and to ensure that other policies are supportive of this liberalization. The proposed initiative to include restrictions on capital movements within the Fund's jurisdiction would take the Fund's role a step further. While we support the sentiment behind this initiative, our final decision will need to take into account:

- the extent to which the proposed initiative duplicates work done by other international agencies;
- the extent to which this initiative replaces lower priority Fund activities (rather than simply adding to the Fund's existing workload); and
- the relative costs and benefits of the overall proposal.

New Zealand Outlook

The economic outlook for the next three years remains positive with robust output and ongoing employment growth. For the year ended March 1997 economic growth was 2.3 percent, and although economic activity actually fell in the March quarter, this was largely due to one-off factors, such as the timing of Easter, which reduced the number of trading days in the quarter. A pickup in growth is expected over the rest of the year, as these factors unwind and looser monetary conditions have an impact on economic activity. Next year strong momentum should be seen in the economy, as a number of factors including increased government spending, tax reductions, and the lagged impact of easier monetary conditions combine to fuel growth.

Governance—New Zealand Experience

Generations of New Zealanders grew up in an environment where the government was protector and provider. Naturally they formed strong beliefs and attitudes about the way the economy operates and the role of government. New Zealanders had high expectations about what the government could do.

Reforms over the past decade have challenged those attitudes and beliefs. And by and large New Zealanders have risen to the challenge.

For example, opening the economy to international competition has provided the opportunity for many of our businesses to boost their performance and reap the rewards a global market provides. Many have seized the opportunity and have proved themselves to be among the best in the world.

Over the past decade, the public sector has been transformed with the introduction of greater transparency and accountability and extraction of government from the various business activities it owned and operated. The government has worked hard to put its books in order and the commitment and professionalism of the public service has helped us to achieve that.

The benefits are evident.

- New Zealand has enjoyed high, sustained, noninflationary growth over the past five years, and given the government's economic policies and a favorable world economic climate, New Zealand can look forward to a solid economic performance over the next three years.
- Unemployment has fallen from a high of 10.9 percent in 1991 to about 6 percent as the economy grew strongly.
- The government has been able to reduce New Zealanders' taxes, given responsible fiscal management, and New Zealanders can look forward to the legislated tax cuts in July 1998. Beyond 1998, economic and fiscal conditions permitting, the government will plan for further tax reductions.
- The government has been able to increase expenditure in priority areas such as health and education, while reducing government spending as a proportion of GDP.

That said, established beliefs and attitudes are hard to change. The benefits of the reforms have yet to be seen in full.

Fund Initiative and International Good Governance

Microeconomic reforms have an important influence on macroeconomic outcomes. We welcome the Fund's further reinforcement of this notion through the formal policy it has adopted on governance issues. This policy aims to ensure that the Fund takes a more systematic, structured approach to examining governance issues, resulting in a more focused effort, and greater consistency of treatment across the organization. An important element in the policy is strengthened coordination with the World Bank. Many governance issues fall within the Bank's domain, and the Fund must make sure that it does not duplicate the Bank's efforts.

World Bank's Internal Change—Applicability for the Fund

Other initiatives under way, such as the good governance proposals, are also commended. Again, transparency of policies and appropriate incentives and sanctions are fundamental for good governance, whether in the public or private sector. The steps the Bank and Fund are taking will help this process, although supporting measures will be required at the local, national, and international level to effect real results.

Like the Bank, we would also encourage the Fund to think systematically and strategically about its priorities, its management practices, and its budgeting and planning processes. To be successful in a rapidly changing international environment, both organizations need to ensure that they have a vision and a tightly focused set of core activities. Continued attention to better coordinating their respective efforts will reduce duplication and the risk of giving conflicting advice to members.

Strategic Compact

New Zealand is very supportive of the objectives and motives underlying the Bank's Strategic Compact. With the growth occurring in private capital flows, the increasing number of countries moving down the road of democracy and economic reform, and the fiscal constraints facing many countries, it is timely for the Bank to look at its development effectiveness and overall efficiency in serving the needs of its clients. While we were initially reluctant to agree to higher funding to achieve the renewal, our interest is now in the results on the ground.

In this regard, I would like to offer some comments on New Zealand's experience with institutional reform in the public sector. Key lessons were the importance of:

- clear objectives and outcomes—which are quantified and agreed in advance, and focused on core business activities;
- performance indicators and efficiency measures;

- hard fiscal or budget constraints—coupled with the devolution of authority and the flexibility to reprioritize and reallocate resources according to demands. Detailed input controls act to preserve the status quo and stifle innovation; and
- more flexible human resource policies—notably individual contracts that recognize and reward performance, and penalize underperformance.

Although the New Zealand public sector did not face the added goal of staff diversity and representation, we did have the need for some groups of staff with particular skills or attributes that were not readily available. Here a range of solutions come into play—pay a premium, build the attributes from the ground up, contract out, or adapt in other ways. It does not mean all staff have to be treated uniformly.

We also discovered the reform process is not a one-off exercise. It is an ongoing process involving continuous efforts and improvement, moving from the core outwards. Once the major steps have been taken and sound frameworks established, however, the reform, while not self-supporting, is self-driven, guided by the core incentives in place.

The Bank's long-term income trend also signals the importance of internal efficiencies and greater external development effectiveness. Among the measures being adopted, of portfolio improvement, new product development, and appropriate pricing, our experience has pointed to greater focus and selectivity as guiding principles, supported by the unbundling and appropriate pricing of products and services.

IMF Performance in the Recent Thai Crisis—Lessons

Recent instability in the Thai economy has highlighted the useful role the IMF can play in rapidly mobilizing resources in the face of a crisis. This is an important role for the Fund. However, being the proverbial "ambulance at the bottom of the cliff" is clearly much less desirable than playing a preventative role where possible. Since the Mexico crisis, the Fund has carefully scrutinized the adequacy of its surveillance, and has implemented initiatives to strengthen data quality and dissemination. This needs to be kept under active review. More thinking also needs to be done on how to encourage adoption of the Fund's advice by member countries. This could include closer analysis of the moral hazard element associated with Fund financing.

Initiative for Heavily Indebted Poor Countries (HIPC Initiative)

I welcome the progress that has been made on the HIPC Initiative and commend the coordinated efforts of the creditor parties involved. It is initiatives of this nature that draw on the strengths of the international financial organizations and the combined membership of those organizations. We are also encouraged by recent moves towards distributing the costs between the multilateral development banks and bilateral donors on a fully proportional basis, and urge continued efforts to resolve the African Development Bank's expected shortfall.

We endorse the pragmatic and flexible case-by-case approach being adopted, but are concerned at the escalation of estimated costs. It is therefore imperative that the pursuit of sound medium-term economic policies and a proven track record remain key for eligibility in order to limit the risks of moral hazard and establish the framework for success.

New Zealand's support of the International Development Association (IDA) reflects our belief that collectively we can achieve greater results in some areas than we can individually. We support the use of IDA grants for HIPC relief where appropriate. To facilitate this, we have agreed to contribute to the replenishment of IDA.

Private Sector Involvement in Infrastructure

We believe there is a significant role for private sector involvement in infrastructure, in both developed and developing countries, and endorse the Bank's initiatives in this area. It is important, however, that the Bank focus on those areas where it can contribute the most and resist the temptation to be all things to all people. In this regard, we see the main strengths of the Bretton Woods institutions as assisting governments in achieving macroeconomic stability and creating an enabling environment for private enterprise. Extending this role to private sector advisory services should only be undertaken where there is a clear need, and with due regard for appropriate pricing, taking account of the resource requirements and risks.

Statement by the Governor of the Bank for Pakistan

Sartaj Aziz

It is a matter of honor and pleasure for me, once again, to represent Pakistan at the Annual Meetings of the Fund and the World Bank Group. The meeting is being held at a moment of history in our host country. The return of Hong Kong, or Xiang Gang, to its rightful owners signals the end of an important phase in the political history of Asia. We join our Chinese hosts in celebrating this occasion and thank them for the warmth of their hospitality.

We meet in the backdrop of the third successive year of robust global economic growth with an optimistic outlook. The notable feature of this growth is that it is widely shared by all regions, in particular by Africa and the countries in transition, which were suffering from depressed growth for quite some time. The slowing of the inflation rate is another positive development.

This optimistic scenario is, however, overshadowed by other developments. Slow growth in global trade, mainly caused by sluggish imports in some advanced countries, has adversely affected the export performance of many developing countries. Despite signs of improvement, many developing economies continue to suffer from fiscal and external imbalances and structural rigidities. For them, the primary concern is the revival of sustained growth, which should be supported by improved access for their products in world markets and inflow of resources at reasonable terms. Most of them are implementing programs of stabilization and adjustment. For these programs to be meaningful and effective, it is essential that due emphasis be placed on widely sharing the benefits of growth and provisions of safety nets with special consideration for disadvantaged groups. As these countries are opening up their markets, it is prudent that freer access to their products is ensured and advanced countries should desist from using labor standards, environment concerns, and human rights as a disguise for renewed import restrictions.

It is satisfying to note that the net private capital flows to the developing countries have reached a record high of $200 billion last year. This event has, however, been constrained by the spectacle of turbulent financial markets in the Southeast Asian region. While welcoming the inflows of productive long-term investment capital from abroad, the region has simultaneously become hostage to the volatile judgments and aggressive activities of foreign portfolio managers. There is too much footloose capital at play, which moves from one country to the next, forcing them to make policy adjustments that are destructive to business confidence and throw their economies off-track. In many cases, the original set of policies might have been optimal but became unsustainable simply because the countries were caught in the path of a spreading contagion.

It is in this context that we must think carefully about how we should implement the Declaration on Capital Account Liberalization. Our Executive Directors in the Fund have worked hard over the past months to develop the legal and policy framework for giving the Fund a leading role in the orderly liberalization of the capital account, by building in appropriate safeguards and discretion for country authorities. The Fund's past record in assisting members to accept the obligations of Article VIII under its existing jurisdiction demonstrates flexibility and moderation and we would expect nothing less in the exercise of its new jurisdiction. We, however, hope that in developing the transitional provisions and the approval procedures, the Fund will rely to the greatest extent feasible on the judgment of members to pace the sequencing of the liberalization process and that it would eschew deadlines or conditions, particularly in the context of the use of Fund resources.

Among the external forces to which developing countries are exposed in the globalized economy are large and unexpected changes in exchange rates among the major currencies, responding in part to equally unpredictable movements in international interest rates. To argue that there is little or nothing that can be done about them is to accept too quickly the rhetoric of free marketeers who find much private profit in undermining the defenses that have been built by developing countries to husband their own savings and to protect their still embryonic institutions from the onslaught of transnational financial conglomerates.

In this context, there is urgent need for timely information and transparency in capital movements. Perhaps institutions like the Bank of International Settlements can play a more active role in informing central banks about large-scale purchases and sales of their respective currencies. This will enable the countries concerned to take timely measures, if necessary to safeguard their position.

There is a tendency for surveillance to be intensified over the weaker, and not the stronger, members of the international community and to be applied by way of new conditionalities over areas that go under the broad rubric of "good governance." There can be no argument that good governance is an essential ingredient of a sustainable development process. But the legitimacy of the actions in this area must also be preserved and preserving it requires that there should be uniformity in the treatment of members, that they do not appear to be operating in ways that detract from their strictly nonpolitical mandates, and that they do not overstretch their technical capacities by moving into domains far beyond their traditional core competence.

We note with satisfaction the progress made in extending ESAF beyond the year 2000 with the establishment of the Trust for Special ESAF Operations for Heavily Indebted Poor Countries. The donors should now come forward with liberal assistance to ensure the successful implementation of these initiatives. We also commend the decision of the Board of the Fund on the New Arrangements to Borrow (NAB), which will ensure greater availability of resources to deal with exceptional situations.

We view with concern the sharp decline in the net official flows to developing countries in 1996. It is unfortunate that the official development assistance target of 0.7 percent of GNP set some two decades ago still remains a far cry away and that, in the case of many donor countries, there is a persistent decline in their share of GNP devoted to assistance to developing countries. Private capital flows are no substitute to concessional assistance; the former are directed towards profitable commercial ventures in fast growing economies, while the latter are needed for building human capital and for alleviating poverty in a large number of low income nations. Quality growth, which the Managing Director mentioned yesterday, cannot be achieved and sustained without more rapid progress in social sectors.

Before I conclude, may I say a few words about the current economic situation and prospects in Pakistan. The government that assumed office last February has launched a program of economic revival aimed at restoring stability and accelerating growth. The program makes a basic shift in economic policy with recognition that the fiscal and external imbalances are partly the result of economic slowdown in the preceding four years and that unless basic structural reforms are undertaken to revive the economy, traditional stabilization measures will not be enough to correct these chronic imbalances. The focus of the program is therefore on the revival of economic growth to 6 percent, with emphasis on accelerating industrial growth, which has slumped in the past few years. For this purpose, the maximum tariff rates have been slashed from 65 percent to 45 percent, the rate of general sales tax from 18 to 12.5 percent, and the personal income tax rate halved. Financial and banking reforms have been introduced to liberalize the monetary policy and provide greater autonomy to the State Bank of Pakistan in formulating monetary policy, overseeing the performance of banks and financial institutions, and speeding up the recovery of stuck-up loans. The capital market has been strengthened to promote investment and the mobilization of resources. The process of privatization is being accelerated, and public sector enterprises in the spheres of banking, finance, energy, transport, and communications have been offered for disinvestment. Incentives have been provided for raising agricultural production and productivity by substantially raising the support prices of key items; liberal availability of credit and other inputs; distribution of state land to farmers; and dissemination of results of agricultural research to farmers. Exports are being promoted mainly by reducing anti-export bias and improving the competitive position of Pakistani products in the world market.

The critical issue of containing fiscal deficit is being addressed by controlling expenditure, broadening the tax base and improving tax collection. Through this policy we expect to bring down the fiscal deficit from 6.3 percent to 5 percent of GDP in the current fiscal year.

On the social front, besides a Social Action Program (SAP-II) focusing on basic education, primary health, population welfare, and water supply and sanitation in rural areas, a Program of Poverty Alleviation is also being launched.

The critical issue of governance has been taken up in earnest. The process of accountability has been accelerated by strengthening the legal and institutional framework; government departments and public sector institutions are being downsized, and their administrative and financial management is being improved; the discretionary powers of officials have been curtailed; and steps have been taken to reorganize and privatize public enterprises.

These policies and measures have been widely appreciated. They have also provided a basis for the initiation of a medium-term economic and financial program with the IMF, supported by World Bank, envisaging financial assistance from the Fund under the Enhanced Structural Adjustment Facility and the Extended Fund Facility. We are determined to see that these programs are implemented in letter and spirit.

Statement by the Governor of the Bank and the Fund for Papua New Guinea

Roy Yaki

Introduction

Mr. Chairman, Governors, ladies and gentlemen, it is a privilege for me to address the Fifty-Second Annual Meeting of the Board of Governors of the World Bank and IMF. On behalf of the government of Papua New Guinea, I would like to extend our appreciation for the gracious and warm hospitality displayed by our hosts, the government of Hong Kong Special Administrative Region.

I would also like to applaud the outstanding leadership of Mr. Wolfensohn over the last year. The progress made in implementing the debt initiative for highly indebted poor countries, enhancing collaboration with the Fund on strengthening financial systems, and creating the “Knowledge Bank” are testament to his skilled guidance. I also extend the same to Mr. Camdessus for his leadership in steering the IMF to where it is now.

The success of any reform program is determined by the political will to implement it. Prior to outlining our economic reform program I would like to comment on the state of political affairs in Papua New Guinea.

Political Situation in Papua New Guinea

Papua New Guinea celebrated its twenty-second independence anniversary last week, and as a mark of our growing maturity our sixth general elections were conducted in July this year democratically and trouble-free. While the immediate period leading to the elections were marred by civil unrest relating to the Sandline affair, this has served to strengthen our young nation by alerting political leaders that they are accountable and answerable to the people they represent.

The new coalition government formed after the election commands a substantial majority and recognizes that political stability is imperative if consistent policies are to be maintained. I am pleased to announce that the government is confident of retaining political office into the next millennium.

The restoration of peace and normalcy on the war-torn island of Bougainville is the utmost priority of the new government. Progress in relation to the crisis on the island of Bougainville has been slow and difficult but steady. The recent Burnham Declaration advances renewed hope that Papua New Guinea may finally be on the doorstep of peace.

The attainment of lasting peace has substantial social and economic significance. In economic terms it will allow the revival of agricultural production from what was formerly our largest agricultural export-earning province. The issue of the reopening of the huge Bougainville copper mine is not an immediate priority and it will require some time to resolve.

The sectors of health, education, and sustainable resource management are other key priorities of the new government, as these sectors are fundamental to providing our citizens with the means not only to contribute productively and participate in the development process, but also to secure an improved quality of life.

Economic Situation in Papua New Guinea

Mr. Chairman, Governors, after an unprecedented crisis in 1994, Papua New Guinea is in the throes of a welcome recovery. The macroeconomic fundamentals point to a restoration of stability with interest rates declining to below 10 percent, inflation currently at 5 percent and declining, and the exchange rate stable against our major trading partners. In 1996, for the first time, we achieved an overall budget surplus of 0.9 percent of GDP. Moreover, our external position is healthy, with reserves at US $554, providing five months of import cover.

In 1997 real growth of GDP is forecasted to be 6 percent, led by strong growth in the mining and construction sectors. The nonmineral sector is projected to grow by 6.6 percent in constant prices, with real growth of 4 percent in the agriculture, forestry, and fisheries sectors, which account for the livelihood of about 80 percent of our people.

Our objective of attaining macroeconomic stability has been achieved, and the next challenge is to realize sustainable and robust growth through the continuation and consolidation of our reform program.

Papua New Guinea's Reform Program

Papua New Guinea has embraced a reformist agenda in the face of considerable opposition and obstacles. While the new government has just assumed office, we are determined that the reforms will continue, under the auspices of our medium-term development strategy for 1997–2002, to set Papua New Guinea firmly on the path of higher income and employment and reduced inequalities in the areas of poverty, income distribution, and access to essential basic services.

The centerpiece of the strategy of restoring domestic stability has been the progressive reduction of the overall budget deficit, as a percentage of GDP, from 5.9 percent in 1993, 2.8 percent in 1994, 0.5 in 1995, and for 1996 a surplus of 0.9 percent.

Fiscal discipline will be sustained, and expenditure-tracking and control mechanisms have been instituted and are being regularly reviewed and refined. The government is paying careful attention to ensuring that resources flow to productive projects and programs, particularly those in the social, infrastructure, and private sectors.

Monetary policy—which, in the past, accommodated the expansionary fiscal policy of the early 1990s—will no longer bear the burden of imprudent fiscal policies. The increased competitiveness of our economy occasioned by the devaluation and subsequent floatation of our currency, the kina, in 1995 will be maintained through the maintenance of low inflation and a stable exchange rate.

However, ours is an unfinished agenda. I would like to briefly outline the key reforms to be undertaken under the next phase of our program. Components of this next phase include the introduction of a national value-added tax, provincial reforms, financial sector and capital market reforms, and public sector and public service reforms.

In the face of diminishing resources, precipitated by declining levels of mineral receipts and budgetary support from the Australian government, revenue flows will be stabilized by increasing the tax base through the introduction of a consumption tax in the form of a national value-added tax. The national value-added tax will eliminate the cascading system of provincial sales taxes and provide a revenue base that is efficient, promotes investment and exports, and is transparent. The tax reforms will be revenue neutral.

Of the competing claims of deficit reduction, tariff and excise cuts, and personal income tax cuts for the new national value-added tax revenues, the second option of rationalizing the current tariff regime will be pursued. The current tariff regime has been used for two objectives: revenue raising and industrial protection, which has led to an inefficient and distortionary indirect tax system and contributed to Papua New Guinea's high cost structure. Beyond the requirement for Papua New Guinea's accession to the World Trade Organization and Asia-Pacific Economic Cooperation, there is a need for industry and tariff policy reforms, stemming from the continued decline in the performance of our private sector, which is inefficient and uncompetitive on the world stage.

Expenditure restructuring is a central component of the reform program. The share of expenditure for consumption will be reduced, and investment will be increased. The quality of expenditure is also being examined, and efficiency will be improved by a greater focus on the link between the budget and the outputs and outcomes.

Public sector and public service reforms are also being pursued to enhance the quality, efficiency, and motivation of the public sector. A study was commissioned by the government, and its recommendations, which are broadly along the lines of the New Zealand model, are being closely examined by the government. Specific measures undertaken to date to reduce the wage and salaries bill include a retrenchment exercise and the compilation of a master payroll list to eliminate ghost workers.

In 1995, the constitution of Papua New Guinea was amended with the passage of the new organic law on provincial and local level governments. This represented a profound response to the lack of goods and services that were being delivered to our rural residing populace.

This new organic law decentralizes the process of resource allocation and emphasizes the bottom-up planning approach. Allowing local government units to participate in the planning process ensures that projects and programs are undertaken that yield benefits that are consistent with our people's needs. The provincial reforms redirect substantial resources; in fact, just over 30 percent of the central government budget goes to the provinces and the rural sector.

The private sector's role in the economy is fundamental to the creation of jobs and income. For the private sector to flourish the government will ensure that macroeconomic and sectoral policies are sound, consistent, and transparent.

Restrictions on foreign participation through direct investment are being eased and the costs for inputs are being lowered through the rationalization of the tariff structure. The government has divested holdings and privatized those activities best served by the private sector. The role of government is now being closely examined and will be focused on those programs and activities that complement the private sector–led sustainable growth.

Recognizing that international financial flows are now dominated by private sector capital flows, Papua New Guinea is instituting reforms to its investment regime to attract these foreign investments. Papua New Guinea attracts significant foreign direct investment, but the bulk of these represent investment in our mineral sector with very little linkage to other sectors.

A national investment policy is currently being formulated that will clearly signal to foreign investors that government will take all measures to facilitate and expedite investments. The broad objectives are, first, to create a more competitive and conducive business environment for Papua New Guinea; and second, to promote sustainable growth through improved and increased upstream and downstream production and processing.

Papua New Guinea has substantial renewable resources and the exploitation of these resources must be consistent with the maintenance of ecological sustainability. To achieve sustainable use of resources, limits have been placed on the annual harvest based on calculated sustainable levels, and environment protection standards are being enforced. Sustainable harvest yields have been set for forest and fisheries resources. Surveillance, however, remains the greatest constraint to our endeavors to halt the rapid depletion of our stock of renewable wealth.

The recent floats for the Lihir mine and the Orogen have confirmed that significant amounts of both debt and equity financing can be realized both domestically and abroad for the right type of project in Papua New Guinea. The major challenge is to harness that potential stock of investment into Papua New Guinea so that the investments are applied not only to very large resource projects, but also to medium- and smaller-sized projects in other sectors of the. economy. This role of allocating resources to the most profitable private sector projects is the role taken on by efficient financial and capital markets.

The fundamental objective of our reform program is to develop more efficient and dynamic financial and capital markets, but important subobjectives include the introduction of new capital and entrepreneurship to the sector, particularly from national sources; development of an appropriate regulatory regime conducive to the growth of investment activities by providing for greater investor protection and confidence; and the broad pursuit of market-oriented and liberalized strategies, while recognizing important elements of market failure in Papua New Guinea that leave the state with an important role in the provision of financial services and credit in decentralized locations.

While we appreciate the support extended to us by both the Fund and the Bank, the implementation of our reform program has been made more intricate than necessary by the desperate policy advice and stance from the two Bretton Woods institutions. Greater coordination, harmonization, and linking between the Fund's objective of stability and the Bank's objective of growth is crucial to the adjustment programs.

The government also conveys its appreciation to the Bank on selecting a reputable Papua New Guinea national citizen to head its liaison office in Port Moresby. We are confident that this will enable a closer working relationship between the Bank and the government.

World Bank/IMF Issues

Mr. Chairman, Governors, I wish to commend the Bank and the Fund on their determination to bring the Initiative for Heavily Indebted Poor Countries (HIPC Initiative) to fruition. While Papua New Guinea is classified as a moderately indebted middle-income country we nevertheless can empathize with fellow Governors here whose huge debt burden stifles their ability to pursue their development agendas.

Papua New Guinea with a per capita income of about $850 is classified as a middle-income country. This per capita level is, however, deceptive, as consideration of our social indicators would rank us well below other countries of comparable income. Consequently, Papua New Guinea does not qualify for softer facilities from the Bank and the Fund. The replenishment of the International Development Association (IDA) continues to be a concern for Papua New Guinea as the shortfall is now increasingly being met from the net income of the IBRD. This means, in effect, that Papua New Guinea and other similar countries are financing the IDA borrowers. We would strongly urge that the Bank and the Fund consider options to increase the concessionality of their harder facilities.

We welcome the Bank's attempt to restructure itself through the Strategic Compact, to better serve its member countries. The key role that the Bank plays in the development programs of developing countries requires the Bank to embrace a medium-term perspective and to see how the world evolves and how best the Bank should adapt itself to attend to the needs of its member countries.

The Multilateral Investment Guarantee Agency and the International Finance Corporation are important facilitators of the flow of private capital investment into Papua New Guinea, and we encourage a more prominent role for both agencies in Papua New Guinea.

Conclusion

Mr. Chairman, Governors, while the outlook remains favorable for Papua New Guinea, the challenge remains to build on the positive actions undertaken to realign Papua New Guinea with a market-oriented regime while maintaining stability on both the internal and external fronts. The government will strive to continue the reforms and firmly establish the foundation for realizing Papua New Guinea's enormous potential. The Fund and the Bank will remain key external partners in the development of Papua New Guinea, and we look forward to the continuation of a mutually satisfying and fulfilling relationship. The discussions and the contributions by fellow Ministers have been enlightening and fruitful, and I hope that the sum of our contribution will provide tangible benefits for the developing nations.

Statement by the Alternate Governor of the Bank for Paraguay

José Ernesto Buttner Limprich

It is an honor for me to address these Annual Meetings of Governors of the World Bank Group and the International Monetary Fund on behalf of the people and government of Paraguay. Our most cordial greetings to you all. I wish to thank the Chinese authorities for their kind and warm welcome and to congratulate them, and the management of the Bank and the Fund, for the excellent organization of this event.

Many countries in the world, mine included, have made considerable progress toward democracy and economic stabilization, and we are now focusing our efforts on firmly establishing conditions conducive to sustainable development while maintaining the full viability of the institutions of our republics. However, we still face considerable challenges, such as the need for faster economic growth in some regions, greater equity, and better environmental management, all of which must be achieved without drawing attention away from the deepening and consolidation of democracy.

In political, economic, and social terms, the world in which we now live is different from what it was in the recent past. Thus the role of international financial institutions must be solidly based on the principles of equity, partnership, and joint effort so as to enable reform programs to become one of the pillars of broader development, beyond the purely economic sphere.

Allow me to share with you some key aspects of Paraguay's socioeconomic situation, particularly the progress made in consolidating democratic institutions under the current administration.

Paraguay: Economic and Social Situation

In economic terms, GDP grew at an annual average rate of almost 4 percent between 1993 and 1995. Growth slowed in 1996 owing to a combination of factors but is expected to once again reach the range of 4 percent this year. As a result of policy coordination efforts—particularly financial and fiscal policies—and despite the difficulties facing the financial system, inflation declined steadily from 20.4 percent in 1993 to 8.2 percent in 1996, which is considered to be the lowest rate in the last three decades. In August 1997, cumulative inflation stood at 5.3 percent.

Fiscal revenue in the past three years increased in real terms, owing to improved tax collection and timely adjustments in utility prices and rates. This made it possible to substantially increase the resources allocated primarily to education, health, and infrastructure projects. That notwithstanding, performance was good in the consolidated public sector, which accounted for 1.5 percent of GDP on average.

Paraguay continues to follow a prudent borrowing policy, regularly meeting its international financial commitments and maintaining an optimum level of reserves. Net international reserves increased by 52 percent between 1993 and 1996, reaching the equivalent of 11 percent of GDP in December last year, while the external debt grew by only 3 percent to 13.5 percent of GDP in December 1996.

The current government continues to steadfastly promote structural reform and state modernization, which led to the restructuring of much of our legal system. We already have laws against money laundering, a new central bank charter, a new general law on banks, an insurance law, and a regulatory framework for the telecommunications sector, among other legislation.

Bills were submitted to congress on government financial management, capital market regulation, trademarks, patents and copyright, and the creation of a new retirement and pension system. A regulatory framework for water and sewerage and for electricity is in the final stages of preparation for submission to congress. Throughout this process, we faced problems in the financial system but never abandoned our goal of stability and have taken corrective measures.

We are committed to consolidating democracy, evidenced by the establishment of an independent judicial branch comprising a Supreme Court of Justice, a council governing high judicial offices, and a board responsible for the judicial indictment of senior members of the judiciary and electoral justice. All of this represents a major thrust in judicial reform and full respect for citizens' rights.

In the area of education, reforms are under way at all levels, as this is one of the present government's priorities and one of the pillars of development of any country. At the end of last year, legislation was approved for creating a national health system to broaden the coverage of preventive and therapeutic health care by better coordinating the efforts of the various institutions working in the sector. This reform aims at substantially reducing morbidity and mortality rates, particularly for mothers and children.

Now, after a term of four years marked by considerable progress, the results are good. Despite resistance, the economic, social, and political reality of Paraguay has changed, and the new order guarantees an institutional environment for the development of private initiative and investment incentives. It is important for the Bretton Woods institutions to continue supporting state modernization in order to maintain sustainable and equitable growth, create sound social and economic institutions, strengthen financial and capital markets in the region, and improve governance.

Poverty is undoubtedly the greatest threat to peace, democracy, and development. Poverty must be reduced if democracy is to be strengthened, hence the need to make accessible resources cheaper, and to help consolidate economic and social reforms. We therefore urge this forum to be innovative in its quest for mechanisms to improve the timely availability of resources. Clearly, solidarity among the inhabitants of one country helps overcome obstacles more easily. The same applies to regional and international relations. It is the responsibility of the advanced countries to contribute to the development of others with emerging economies, and the valuable assistance provided by traditional donors must be continued.

We are cognizant of the fact that environmental conservation is a priority, but it is a global one and, therefore, the technical and financial resources needed must come from the international community.

Lastly, I must point out that in all the reforms and policies we have been implementing to create an efficient and dynamic state, we have not lost sight of the fact that they are aimed at human beings and, therefore, must be socially and politically viable.

Statement by the Governor of the Bank for the Philippines

Roberto F. De Ocampo

Hong Kong and the Emerging Tigers

Sense and circumstance chose Hong Kong well as the venue for this year's meetings. Apart from its historic significance to China already much remarked upon, Hong Kong has special significance to Southeast Asia's so-called emerging tigers, including my own country. These countries are currently put to the test by financial markets, the very same markets that have forged Hong Kong from hard rock and hardy men into one of the most dynamic economies of the world.

Many portfolio investors have judged, at least for now, that some emerging countries in Asia have failed the test. A few go so far as to suggest that the so-called Asian miracle is a mirage.

On the other hand, many of our peoples whose lives have been painfully affected by the severe shifts in market sentiments have judged markets as undependable, arbitrary, or, worse, manipulated. Calls for the return of capital controls are increasingly being heard in the region.

The Way Forward

Clearly, neither of these views is right nor will they bring us anywhere forward.

As the markets better differentiate among the emerging Asian countries, this turbulence and economic consolidation over the next one to two years is unlikely to detract from the long-term positive outlook for most of the region. Their governments are pragmatic, and despite what may seem like harsh antimarket pronouncements, governments still adhere to the fundamental principles that have served the region well in the past—such abiding principles as fiscal discipline, encouraging savings and investments, openness to trade, and a continuing emphasis on human capital development.

Volatile capital flows will continue to be a challenge, but the answers are not in a return to controls but in managing these flows better. The answers are not in restricting markets, but in making them work better. The key to this is a higher level of disclosure and transparency so that players act based on timely and accurate information. If they act in partial darkness or are subjected to "information avalanche" they naturally act like herds in panic.

At the same time, market players themselves need to become more diligent in differentiating among the countries in a region. There are few winners in the kind of contagious and self-fulfilling prophesies of doom that start from one country and spread like a virus. There must be room for the multilateral institutions to play a more aggressive role in preventing such a crisis from developing to begin with, or started if it has, to bring in quick assistance to contain its spread—a "quarantine" function so to speak.

Much homework needs to be done to strengthen the resiliency of the recipient economy, especially in the financial sector. It has become abundantly clear that it is not enough to just do the "three d's": denationalize, deregulate, and dispose in order to address the inefficiencies of the public sector. Without an appropriate regulatory framework and knowledgeable and competent supervisors, market excesses and private inefficiencies will result. "Steering" requires less manpower than "rowing" but is an expertise that needs to be honed with much effort and care. Nowhere is this more critical than in the financial sector where poor quality of supervision and prudential lapses can exact a heavy toll on the entire economy, especially the most vulnerable members of society. Upgrading the capabilities of regulators must keep apace with the speed of liberalization.

The Philippine Situation

In response to the currency turmoil, we supported greater exchange rate flexibility and enhanced monetary prudence. However, we remain deeply committed to the foreign exchange liberalization that we have undertaken over the past few years.

We believe that this storm hitting the region is only a temporary setback for the economy and have confidence that the economy will return. Our economic house has been fortified by the fundamental reforms implemented under an IMF Extended Arrangement. We are on track in this arrangement and we are set to exit by year-end.

The currency turmoil has not altered the solid performance of our economy. Fiscal balances are positive; inflation at 4.5 percent as of August remains under control. Export growth is still at an upward trajectory at 22 percent during the first six months of the year, the highest in Asia outside China, while import growth has declined to 10 percent. Our external debt situation has never been better, with debt service payments down to just 12 percent of exports of goods and services. Reliance on portfolio investment as against direct investment has been modest at only 13 percent, compared with a figure far above 50 percent for the rest of the region. Core GDP growth is being sustained at 5.3 percent.

We have also managed to avoid the kind of overheating pressures that have built up in other economies. Overbuilding is far from being a generalized problem. For example, a recent independent foreign-based analyst estimated office vacancy in Manila at only 2 percent (compared with double digits elsewhere in the region).

Relatedly, our banking sector is in good health, reflecting the effects of reforms in the wake of the debt crisis during the 1980s as well as recent policy actions. The banking system has been rated by an independent foreign analyst (Morgan Stanley) as “above average” (in league with Hong Kong SAR and Singapore). The ratio of banks’ nonperforming loans is low at 3 percent and capital adequacy ratio is among the highest in the region at 17.4 percent.

Now what lies ahead? After the Philippines exits IMF guidance later this year, what assurances are in place for the continuation of sound economic programs? Let me summarize our policy: when the markets talk, we will listen. We are committed to ensuring that the financial community, on whom we will continue to count for capital, will be in our minds as we craft economic policy. In a very real way, the financial markets provide a lot of the signals for action traditionally provided by the IMF. This may sound risky and unwise, especially in these times, but in reality it is already the policy of every robust economy in the world.

In this regard, let me detail the specific actions we have taken to reassure financial markets. Over the short term, we have tightened expenditures and increased budgetary reserves. Our banking regulators early this year have already put a cap on lending to the property sector, and have recently required higher provisioning. Renewed impetus has been provided to priority legislation presently in Congress, like the comprehensive tax reform, omnibus electricity bill, and amendments to the general banking act and the revised securities act, which address remaining structural constraints.

The Role of the IMF and World Bank

The Bretton Woods institutions have critical roles to play in both preventing excesses by filling market information gaps and containing their consequences through speedy assistance. In this respect, the IMF needs to reinvigorate its surveillance functions and improve its data dissemination. The World Bank Group can be more active in helping develop the capability of supervisors to help strengthen the financial sector, the lynchpin to financial sustainability.

Market and Democracy

Looking ahead, one immediate task is to complete the reforms that underpin our exit from the IMF. The more difficult challenge, and in the long run more important challenge, is to communicate to the financial markets the Philippines' sound economic and political foundations.

It is easy to be distracted by the "noise" arising from our political system. We are committed to democracy, and in this commitment we would draw parallels with our resolve to listen to the messages from the financial markets. Like the financial markets, our young democracy may be subject to some excesses. But listening to the message—and indeed having the mechanism to have the message reach our leadership—ensures that we understand the evolving political consensus. It is a lesson not lost upon us that the countries that have proven competitive in the long run tend to be open democracies with flexible economies.

Conclusion

Let me conclude as I have started, by pointing to Hong Kong as the antidote to those who would get "agoraphobia" from the developments in the regional currency and stock markets recently. There is no substitute to global opening and integration as the way—perhaps the only way—to jump-start our economy out of poverty. Only this gives us technology, markets, and capital. The day is long gone when we can look at financial market liberalization as a desirable "add-on" option in this effort. In a global economy, restrictions merely deflect resources elsewhere. There is, at the same time, no substitute for developing world-class regulatory and supervisory institutions in an ever globally competitive world.

Nothing of the developments of the past months has changed our basic strategy. We intend to welcome and manage these flows by keeping a sound macroeconomy, our exchange rates competitive, and proper pacing of our liberalization efforts. We believe in letting market forces operate for the most efficient to survive. We are committed to full disclosure and transparency for corrective action to be taken in the market constantly.

The Philippines intends to come out of the present crisis strengthened rather than weakened. We intend to turn the present problems to opportunities.

Statement by the Governor of the Bank for the Republic of Poland

Hanna Gronkiewicz-Waltz

May I start by saying how pleased I am to be addressing the World Bank and IMF Annual Meeting here in the Hong Kong Special Administrative Region, which is such a vibrant center, not only of finance, but also of culture. The excellent organization of the meeting taking place just several weeks after the constitutional change enables us to better understand the source of the economic success of this region, the success that we believe can be smoothly continued in the new reality.

In today's world, changes are ever present. In Central Europe, we are going through a historical process of transformation. Our transition, as I often emphasize, has simultaneously involved not only a move from totalitarianism to democracy, but also a move from a planned economy to an open market. Such transformation inevitably affects the lives and future of whole nations and cannot be achieved without the full involvement of the people.

Our own experience proves that it is possible to achieve macroeconomic stabilization and positive economic results—the accepted hallmarks of a successful transformation—in the short to medium term. GDP growth rates of 6–7 percent over the past three years, based on real investment expenditures consistently rising at 20 percent annually, can be accompanied by continuous disinflation, if fiscal discipline and prudent monetary policies are in place. However, we have also found that the process of transformation involves occasional setbacks and that it is not easy to achieve sustained long-term growth. It is essential to deal with problems as they emerge, even if the medicine is bitter, and thus avoid their accumulation that may lead to crisis. To reach and maintain sustainable growth a number of well-recognized factors such as institution building and structural reforms should be involved. The stable institutional framework and flexible economic structure, which are already quite deeply rooted in Poland, justify my strong belief in the permanency of a right direction of developments in my country.

Most recent experience shows us clearly that various measures thought to be prerequisites for sustainable growth, particularly deregulation of financial markets and liberalization of capital flows, may have multifaceted impact on the country's macroeconomic situation. They can be and usually are beneficial. However, to be successfully implemented, they need to have a suitable environment, and a healthy and strong financial sector is of utmost priority. Premature liberalization or neglecting rules of sound economic policy at a later stage may result in serious harm to the sustainable growth and the entire transformation process. I am glad to observe that some international institutions have put a lot of effort into research and policy advice regarding these issues. The attempts notwithstanding, there is still much to be done to make this new approach widely accepted.

I would also like to emphasize the significance of another, less obvious, factor that is equally essential to the transition process. This vital element is public confidence. To achieve far-reaching change, and to ride out the storms of setbacks, the government needs legitimacy. A legitimate government is one that is confident of the endorsement of the people in whose name it acts. To gain this confidence, a government needs to behave in accordance with proper ethical standards, transparently and irreproachably, to win public trust and support. If the society believes in the transition process and trusts in the government to introduce and develop it, the people will lend their support despite any difficulties, even when unpopular measures are implemented to restore the balance.

For this reason, apart from macroeconomic stabilization and basic structural reforms, ethical standards in implementing economic policies and in conducting business are essential to achieving sustainable growth in the long run. Sound business standards are integral to growth. This is not just true of countries undergoing transition, but also of the ones that have enjoyed economic soundness for many years. Popular trust in a government, based on the existence and maintenance of proper business practice, transparency, and fairness, is of global importance.

In this context, we welcome the Organization for Economic Cooperation and Development's decision in May 1997 to draft an international treaty stamping out business corruption as well as the Development Committee's discussion on the same topic during these meetings. We strongly believe that work on internationally accepted business ethical standards belongs among the basic tasks of the international financial organizations.

This meeting has put forward many issues that require further research and conclusions. I believe that both countries in transition and developing countries may expect guidance from international organizations, such as the World Bank and the IMF. I hope that such guidance will be provided in a timely manner.

Statement by the Governor of the Bank for Portugal

Antonio de Sousa Franco

It is an honor and a pleasure for me to address these Annual Meetings of the World Bank Group and the International Monetary Fund. First allow me to recognize the unique opportunity that all of us have in meeting in Hong Kong at this time and thank the government of China and the people of Hong Kong for their very warm welcome and magnificent hospitality in this vibrant part of the world. What better place on earth to further strengthen global integration, competitiveness, and international cooperation? China has a unique role in view of its spectacular achievements in this global setting. As President Wolfensohn said this morning, "The big five will achieve unprecedented growth, which, over a longer period of some 25 years, will fundamentally alter the balance of power between countries and the rules of international trade." Three of the big five are in this region of the world. Their growth prospects are a major factor in the positive global economic outlook we are facing.

Last week, in Bangkok, on the occasion of the first Asia-Europe Finance Ministers Meeting, the objective of a new comprehensive Asia-Europe partnership for greater growth was emphasized, and we had the opportunity to exchange views on the macroeconomic situation and outlook as well as on developments in foreign exchange markets and European Economic and Monetary Union (EMU). At that meeting, we also recognized that the globalization of financial markets, while creating opportunities for an improved global economy, poses challenges for financial supervisors and reinforces the need for sound macroeconomic policies. I am confident that the initiatives we agreed upon in Bangkok, in particular at the level of financial supervision and regulation, customs cooperation, and fighting money laundering, will contribute decisively to a strengthened cooperation between these two important parts of the world, and consequently, will influence decisively the financial world. The global economy makes the attempts of administrative intervention vain and counterproductive, but requires partners, cooperation, and an exchange of information between states and regional areas.

The main event in Europe is the third stage of EMU, which is being carefully prepared and will start on January 1, 1999. At this moment, a large part of the European Union (EU) will have a single currency: the euro. The introduction of the euro, as a low-inflation currency with great economic weight, will be a strong additional step in the process of consolidation of the global economy. Ever since the ratification of the Treaty on European Union by the parliament in 1992, Portugal has been committed, at the highest political level, to adopting economic policies consistent with the creation of a single European currency. In this context, the sustainability of the process of debt and budgetary consolidation, disinflation, and exchange rate stability is a prime objective for the Portuguese authorities, both as a result of the aim to be among the core of the EMU founder countries and because it is essential to the preservation of a stable macroeconomic environment, which is the base for sound growth and job creation. Progress made by the Portuguese economy toward convergence with the other EU economies has been substantial, both at the monetary and budgetary level, so Portugal is now prepared and committed to participate fully in the third stage of EMU from the start. We welcome this major change in the world economic scene as a decisive step toward consolidating development, growth, and free markets.

After some years of slowdown, in 1997, like last year, Portugal's growth is estimated to be well above the EU average. Growth and real convergence with the other EU economies are sustained by continued buoyancy in private investment and supported by public investment. Moreover, this process has been sustained by exchange rate stability, favorable external price trends, continued moderate growth, and the noninflationary behavior of demand, and it is positively influenced by reforms under way in fields such as taxes, labor market, social security, and health services.

Remarkable opportunities for countries to enhance their development are clearly available and are increasingly reachable as a result of globalization and integration. But, at the same time, governments are confronting a broad range of policy challenges. Markets' growing sensitivity to domestic and external imbalances has added a new dimension to these challenges, while the discipline that markets impose is a powerful incentive to implement sound macroeconomic policies and pursue structural changes. The agenda of our assembly today addresses some of these challenges.

Promoting private investments in developing countries and undertaking actions to combat corruption and improve governance are some of the challenges. The emphasis on sound financial systems is of crucial importance. In fact, these topics are complementary and part of the only way to promote and sustain growth. We greatly support the emphasis our Bretton Woods institutions are putting on these aspects of the development agenda.

To maintain private sector confidence and to attract private sector investment require the appropriate environment including, inter alia, an efficient and accountable public sector, a transparent and stable legal, fiscal, and policy framework, more coordination of tax rules and policies, and a healthy and sound financial sector. Much remains to be done to relieve the constraints that are limiting private sector participation in crucial sectors of the economy, such as that of infrastructures.

Let me share with you a few features of our experience in this area. After years of wrong state-commanded policies, now, in the context of an ambitious program of modernization and restructuring, an ambitious privatization program has created the appropriate conditions for ensuring an increasing role of the private sector, so that the public sector can focus on strengthening human capital, which is an absolute priority for us. The driving force of this program has been to increase the efficiency of the allocation of resources and competitiveness of Portuguese firms. Although privatization operations are complex, we have come a long way. Banking, insurance, cement, chemical, tobacco, food processing, oil, telecommunications, and energy are no longer dominated by the public sector. No sector is now closed to private initiative. Public utilities, where state monopolies were common, are today liberalized and regulated by independent bodies. In infrastructure, the government has adopted a legal framework for harnessing private initiative and resources. Competition has been introduced in constructing and operating roads and highways. The second Lisbon bridge is a case of build-operate-transfer, which has been successful in keeping costs within budget, and it should be ready on time next spring. As a result of sound macroeconomic policies and strong growth, our domestic financial market evolved in 1997 from emergent to developed, in recognition of the sound conditions of our economy.

We welcome the World Bank Group action program to eliminate the bottlenecks and barriers to private sector involvement in infrastructure. Among those worthy of mention are the initiatives to reduce or eliminate the political risks that private investors face through the expansion of guarantees. Those can greatly contribute to an increase in capital flows to the developing countries. Therefore, we appreciate recent initiatives taken by the World Bank in this area. Furthermore, we welcome progress made toward reaching a consensus on a capital increase for the Multilateral Investment Guarantee Agency (MIGA). As shareholders, we are willing to renew our commitment to the institution and can join the consensus reached on the funding package. We expect a renewed commitment to further promote the international and diversified vocation of MIGA in order to achieve a more balanced portfolio.

Sound and healthy financial systems are another crucial—if not the most important—factor to maintain macroeconomic stability and to promote economic growth and poverty reduction, which remain the ultimate objectives of our institutions as well as of our governments. We strongly endorse the call for a renewed effort from the Bretton Woods institutions to strengthen financial sectors of developing countries. Several weaknesses of the banking systems have been exposed recently. Supervision of the banking system has to be revamped and subject to demanding and efficient patterns and concepts. Quality of the credit portfolio has to be monitored closely to avoid unmanageable levels of nonperforming loans. We call again on the international financial institutions to play their part in contributing to the prevention of the occurrence of this type of crisis. We welcome the emphasis on strengthening the Bank-Fund partnership in this regard.

The issue of corruption and good governance also deserves great attention; a market economy based on private sector involvement can optimally allocate resources only if decisions on how to allocate resources are undertaken without interference. We welcome the Bank and Fund strategies and guidelines to assist member countries to address issues of poor governance and corruption. The international financial institutions bear great responsibility for promoting a transparent, accountable, and antibribery business environment, starting with measures to protect their own portfolio. We strongly encourage the Bank to play its role in strengthening international cooperation in this crucial area. Public confidence is a hard commodity to obtain and to maintain, but it is essential to stability and to social and economic progress. Portugal, for its part, is ready to implement the Convention on International Bribery currently being negotiated at the Organization for Economic Cooperation and Development, when it has been ratified.

Last, but not least, let me comment on one major achievement: the implementation of the debt initiative. As envisaged from the outset, the initiative requires the continuing close collaboration among creditors to effectively deliver the debt relief that eligible countries need to face the demanding agenda for economic and social development. We support those who stand for the expeditious implementation of this process, which is essential to justice and growth all over the world, and we praise all the efforts of the World Bank, the IMF, and member states toward this end.

I am pleased to announce here today that Portugal, as a partner in this process and as a main creditor of eligible and potentially beneficiary countries, will contribute to the HIPC Initiative Trust Fund. We also expect others to do so.

STATEMENT BY THE GOVERNOR OF THE BANK FOR THE RUSSIAN FEDERATION

Anatoly Chubais

On behalf of the government of the Russian Federation, it is my pleasure to welcome the participants and guests of the Annual Meetings. The past year has been interesting and complicated, full of important events. Our opinion is that the Bretton Woods institutions have been quite successful in addressing the challenges they have faced. A great deal has been done to maintain stability in the international monetary system and to strengthen the foundations for a healthy balanced growth worldwide, including developing countries and transition economies.

The world economy is, to an ever-increasing extent, characterized by globalization, that is, a growing integration of markets for goods, services, and capital. On the one hand, it enhances the efficiency of allocation of resources globally and thus promotes economic growth. On the other hand, growing interdependence of national economies and financial markets provides for stronger requirements for the quality of domestic economic policies and sharply increases the cost of wrong decisions.

Globalization of financial markets has raised the risk of financial and currency crises in developing countries and transition economies. Private capital inflows have substantially boosted these countries' economic potential, but at the same time they have demonstrated the vulnerability of their banking systems and the shortcomings in domestic financial regulations. Increased openness of the economy has certainly played a role, too. The true causes and the mechanism of the unfolding of currency crises still remain to be analyzed. Apparently, it was not so much the actions by international foreign exchange speculators, but rather actual mistakes in economic policies that have caused crises. Thus, practically all countries whose currencies came under speculative attacks had been running a substantial current account deficit financed by short-term private capital inflows.

It becomes increasingly important to choose the right exchange rate arrangement, which should allow misalignments to be avoided and thus prevent the national currency from turning into an attractive target for speculators. I am referring not only to the shortcomings of a unilateral peg to just one of the leading currencies, but also to the risk of excessively rigid exchange rate regimes. While the use of pegged exchange rates as nominal anchors is justified at the stage of curbing high inflation—and Russia's own experience is a good proof of that—a more flexible policy is preferable for open economies where financial stabilization has already been accomplished and economic growth has resumed. Nevertheless, too much of a generalization is counterproductive here, and the choice in favor of one or another exchange rate regime must depend on the specific circumstances of each country.

Among other issues of the world economy, I would like to mention the forthcoming inception of Economic and Monetary Union (EMU) in Europe and the introduction of the euro. It is too early to discuss the exact place and role of the euro in the international system, but in any case this event will certainly influence the development of the world economy a great deal. Russia's objective interest is to see a stable and dynamically growing Europe, so let me sincerely wish success to the European countries in their integration efforts. Probably, at the stage of introduction of the euro, the industrial countries will need to enhance coordination of their foreign exchange policies in order to avoid sharp volatility.

In the modern world, the role of Fund surveillance tends to increase, and I note with satisfaction that the Fund has been able to cope with the new challenges. The new focus on the soundness of banking systems was fully warranted. As for new modalities of operation, this year the IMF has already used twice the recently adopted emergency financing mechanism in its efforts to minimize the effects of currency crises.

Should the International Monetary Fund play a substantial role, it will need additional resources. In this context, I welcome the compromise reached on the Eleventh General Review of Quotas. However, I consider the formulas used in quota calculations to be highly unfair and not reflective of the relative country positions in the world economy. Therefore, I would strongly urge the Fund members to revise these formulas as soon as possible and certainly before the next quota review.

I congratulate my colleagues for the decision on the special one-time allocation of SDRs. Several dozen countries will now be able to join the SDR system. I hope that the decision taken will come into effect before too long and that members will start enjoying their new rights in the foreseeable future.

It gives me pleasure to note the progress achieved under the IMF and World Bank's Initiative for Heavily Indebted Poor Countries (HIPC Initiative). The first few beneficiaries to receive unprecedented international support have been identified. While welcoming a certain degree of flexibility with regard to the specific conditions of countries, I would still consider it important to maintain the basic principles and to prevent an excessive watering down of the criteria for participation in the initiative. We presume that the costs of implementation should be shared proportionally by all groups of creditors. We are slightly concerned at the ongoing upward revisions of the cost estimates and by the lack of clarity about sources of funding.

Russia is prepared to contribute constructively to the success of the initiative, and even to admit that, in a number of cases, our share in the reduction of the external debt burden will be substantially greater than the relative contribution by other creditors.

Allow me also to inform you of the Russian government's decision to participate bilaterally in the financing of the Enhanced Structural Adjustment Facility (ESAF)-HIPC Trust. We agree to transfer the resources from the SCA-2 account as a grant and to make further contributions, the size of which will be proportional to Russia's quota in the IMF and to the participation of other donors.

We agree that the Bretton Woods institutions should pay more attention to the issues of good governance and corruption. Sustained growth and social progress are impossible in the absence of an efficient and honest state that sets simple, stable, and equal rules for all market participants and maintains law and order. Having made this issue one of their priorities, the Fund and the Bank must take into consideration all its aspects, ranging from promotion of economic liberalization and sound macro policies to combating incidents of corruption and abuse of public funds. These are very delicate matters, and I hope that they will be addressed in a balanced and responsible way by treating all members equally on the basis of trust and respect for their sovereignty. The Fund and the Bank should by no means become instruments of political pressure or even competition for individual countries' markets, and it might seem that such a danger cannot be completely ruled out.

Before I conclude, let me say a few words about Russia's economy. We estimate that the situation has begun to improve. The protracted decline in output—that had lasted for almost 10 years—was finally arrested, and next year we expect a resumption of economic growth. This year the rate of inflation is expected to be at the level of about 13 percent, and about 7 percent in 1998. The exchange rate of the ruble has stayed within a predetermined band and has positively influenced inflationary expectations. A decline in interest rates is another important feature of financial stabilization. The yield on government bonds, which used to "crowd out" resources from the real sector, is now just slightly above the level of inflation.

Nevertheless, Russia's economic situation remains quite complicated. I am referring to public finance. We are dissatisfied with tax collection, and on this front no sustainable turnaround has been achieved yet. Certain hopes are associated with an expeditious adoption of a new tax code, which is meant to streamline the tax system and alleviate the tax burden on businesses. Another important area where we have put great efforts covers structural reforms, especially privatization, enterprise restructuring, housing and communal services, social infrastructure, regulation of natural monopolies, and establishment of institutions of a law-governed state.

Russia is successfully implementing a three-year Extended Arrangement supported by the IMF. We appreciate our fruitful relations with the Fund, which greatly contribute to the success of reforms in Russia and improve investors' confidence in the Russian economy.

Russia has decided to adopt the Fund's Special Data Dissemination Standard. Of course, we will take advantage of the transition period. Hopefully, investors will give us credit for increasing the transparency of the Russian economy.

Cooperation between Russia and the World Bank has significantly improved and has good prospects. We are satisfied with the Fund-Bank interaction in the area of structural reforms. In particular, the Bank is rendering helpful assistance to us in the regulation of natural monopolies and resolution of acute social problems. It is carrying out a number of important pilot projects in enterprise restructuring, education, and health, and enhancing the government's economic analysis capacity. We believe that the structural reforms worked out in coordination with the Bank will, in the longer run, help to restore economic growth and to maintain macroeconomic stability, as well as to improve the situation of those groups of the population who have been facing major economic hardships since the early 1990s.

Statement by the Governor of the Fund for Samoa

Tuilaepa S. Malielegaoi

It gives me great pleasure to address the Fifty-Second Annual Meetings of the International Monetary Fund and the World Bank, on behalf of our Pacific constituency—Kiribati, the Marshall Islands, Federated States of Micronesia, Solomon Islands, Samoa, and Vanuatu. I note that the Fund and the Bank are close to completing procedures for admission of Palau as the newest member country from the Pacific, and we look forward to their membership in the international community.

I would like to express our sincere appreciation to the Fund's Managing Director and the Bank's President for their statements particularly on the internal restructuring of the two institutions, to respond to the changing needs and circumstances of member states in the global economy. The implementation of the Bank's Strategic Compact and the adoption of the proposals for Adaptable Lending—New Investment Instruments are particular cases in point, as well as the initiatives for greater field contact between the Bretton Woods institutions and their members.

We are encouraged to see from its *World Economic Outlook* that the Fund believes that the current global economic expansion can be sustained. It notes that there are relatively few tensions and imbalances appearing, which might presage an end to the current economic growth, and further notes that there is still a great deal of slack in the capacity of a number of industrial nations. While growth has been generally widespread across various regions, the recent instability in currency markets and its contagious effect on dynamic emerging markets, and the possibility of higher interest rates in the industrial countries may have implications on projected growth for 1997–98. For our constituency of small island countries, the downside risks to this generally favorable outlook include declining official development assistance (ODA) flows, our inability to tap into private capital markets, and the decline in commodity prices.

On capital account liberalization, we recognize that there may be global benefits to be gained from freer capital account movements; however, we must, because of the size and structure of our small economies, protect against the risks of large, adverse capital flows that might destabilize our external positions. We therefore support the call for longer transitional arrangements to allow developing countries to move towards full liberalization as well as technical assistance to implement these arrangements. Some members of our constituency are already moving towards liberalization of their domestic financial systems. This is being undertaken with great caution, mindful of our absorptive capacities to manage these radical changes to our small economies, while at the same time also ensuring that sound macroeconomic policies are in place to support these changes.

We welcome the Fund and the Bank's recent adoption of guidelines covering the scope of their role in addressing issues of good governance. There can be no doubt that they have major contributions to offer in promoting good governance to improve the management of public sector resources that support the development and maintenance of a transparent and stable economic and regulatory environment, which is conducive to private sector growth and sustainable development. However, the issue of sovereignty—especially where there is a likelihood that the institutions will be considered to be micromanaging economic processes—remains a sensitive one that will require constructive consultation and dialogue between all parties.

We welcome the agreement reached on the Eleventh General Review of Quotas and the amendment of the Articles of Agreement for a special allocation of SDRs. These developments should provide the Fund with the flexibility to carry out its mandates effectively, as well as respond to major crises. I note with satisfaction that issues and anomalies in the distribution of quotas, as well as the treatment of new members since the last general review in 1990, have been addressed in the current revision.

The collective economic performance of members of the Pacific constituency over the past decade has been poor. Our generally inward-looking, isolationist stance in the past few years has not been successful for economic development and growth. Our economies have also suffered from external, and in some cases, internal climatic and/or financial shocks. Certainly these shocks have been physically and financially devastating and therefore severely disruptive of economic growth. We must not allow such events to dominate our policymaking and our strategic thinking for the future. We must restructure, and develop our economies to take advantage of the benefits of our limited comparative advantages. These policies must be pursued both with vigor and caution given the small and fragile nature of our economies. Clearly the Fund and the Bank have important roles to play in this process to enable us to achieve these strategic goals. We shall therefore need continued financial support and technical assistance from both the Fund and the Bank and our bilateral partners. In this regard we are concerned with the continuing decline in ODA, and the introduction of greater conditionality in Bank lending. In view of the continuing reductions in ODA, the role of the International

Development Association (IDA) will be crucial, and we would encourage donor countries for greater commitment to sustain IDA lending, if developing countries are to successfully implement the reform process, and to improve the underlying economic and human resource base of our economies.

The challenges facing members of the Pacific constituency are not just those of economic policy and reform. These alone are daunting enough. The recent revelations that the polar ice cap is melting at an unprecedented rate and that the presently forming El Niño climatic system is the most severe on record, could test the fragility and vulnerability of the physical environment of the small island nations. These impending changes, coupled with the impact of globalization, liberalization, and increasing international competitiveness on our economic performance overall, will put considerable strain on our small administrations and limited resources. It is in this context that we will continue to seek support of the Bank and Fund of our endeavors.

Finally, I want to thank the government of the People's Republic of China and the people of Hong Kong for their hospitality and generosity in hosting the Fifty-Second Annual Meetings of the Bank and the Fund.

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

Rodrigo de Rato Figaredo

Allow me to begin my statement by thanking our hosts for their superb hospitality. I also applaud the decision to choose Hong Kong as the setting for these Annual Meetings of the International Monetary Fund and the World Bank Group. The choice of location reflects our conviction that the territory of Hong Kong, now returned to Chinese sovereignty, will continue as a major international financial center and bellwether for the market economy.

The Annual Meetings are taking place at a particularly auspicious time for the international economy; global output continues to expand and interest rates are falling in most countries. With such a combination of growth and price stability, this looks to be one of the longest-lasting periods of economic expansion in recent history.

Latin America is no longer the source of anxiety that it once was. The troubles have shifted to Southeast Asia, where recent financial events in Thailand have been arousing much concern at the international level. Supported by the main countries in the region, the IMF has played a decisive role and we trust that the recent agreements will help to restore market confidence in the economies of the Far East, where economic fundamentals remain favorable.

Spain is keenly interested in ensuring that such crises can be overcome and it is also committed to building a climate of stability at the international level. This is partly because of Spain's commitment to stability and prosperity; however, the Spanish economy has also been engaged in a far-reaching process of opening up to the rest of the world and is embracing the current globalization trends that are providing such impetus for world growth. Today, Spain holds substantial investments abroad in such representative sectors as banking, telecommunications, and basic services. These investments, initially concentrated in Latin America, are now being extended to other regions of the world.

Accordingly, we feel that we should take stock of the current world situation and, in particular, to the thrust of basic economic policies and the role of multilateral organizations. We draw the following conclusions.

- First, exchange rates must be able to adapt rapidly to changing conditions in international markets.
- Second, economic policy programs (both fiscal and monetary) should be compatible with the chosen exchange rate regime and should foster a credible climate of stability.
- Third, it is essential to implement timely structural reforms to provide economies with greater flexibility, thereby enabling them to adapt to a globalized and increasingly competitive world. Deregulation, privatization, liberalization, and competition are key factors in this new phase of the process.
- Fourth, we must proceed with the orderly liberalization of capital movements to overcome the current profusion of restrictions and obstacles blocking the free movement of financial resources, and so enable the world economy to develop to its full potential.
- These measures should be pursued in accordance with the basic principles of transparency, accountability, and good governance featured in last year's Declaration on Partnership for Sustainable Global Growth. Only these principles can truly foster the kind of trust and credibility needed to ensure the optimal functioning of government institutions and the success of their economic policies.

The International Monetary Fund has a central role to play in this process. We therefore support the allocation of fresh resources pursuant to the Eleventh General Review of Quotas; however, we favor changing the current formula in order to correct anomalies in calculated quotas and present quotas. We also support an amendment allowing a special allocation of special drawing rights, and we welcome the Hong Kong Declaration as a major step toward the globalization of capital flows.

Further evidence of this global support for the IMF is to be found in Spain's participation in the New Arrangements to Borrow and the Enhanced Structural Adjustment Facility. With its contributions in these areas, Spain is demonstrating its commitment to international cooperation and partnership for the benefit of the citizens of the world.

The World Bank is likewise engaged in a reform process; it is our hope that these efforts will make the institution stronger, more efficient, and more attuned to the needs of the global economy and, in particular, the need to conquer poverty in the developing countries. We welcome these reforms and look forward to their successful completion. In particular, a priority of the reform program must be to ensure that the Bank's corporate culture truly reflects the universal nature of its membership.

Mention should also be made of the agreement to increase the capital of the Multilateral Investment Guarantee Agency, which will enable it to pursue its efforts to assist private investment in developing countries. Spain's interest in this agreement is understandable, given the volume of Spain's foreign investment and our country's commitment to resolving the problems facing the less developed countries.

Both Spain and the European Union, to which we belong, are facing the new challenges of the world economy with some confidence and with a firm commitment to making a meaningful contribution to the new international economic order.

In fact, European Economic and Monetary Union (EMU) will be a stabilizing force in the world economy in two ways: first, it will establish a broad-based common currency that will promote equilibrium in the international monetary system; and second, its commitment to stability will ensure sound economic policies in the EU member countries, help create an environment of low interest rates, and so promote cheaper money policies conducive to economic growth.

For this reason, the countries of the European Union must redouble our efforts and pursue timely modernization of labor markets as well as the markets for the production of goods and services. The principles I mentioned earlier—namely, deregulation, privatization, liberalization, and competition—are likewise prerequisites for ensuring the success of the EMU and safeguarding its contribution to global equilibrium and stability.

These, then, are the principles that are guiding Spain's policies; I am pleased to say that the results have been very encouraging in terms of promoting job creation and enhancing prosperity. Our current economic policy is based on steadfast, meaningful efforts to achieve fiscal consolidation. This adjustment has been achieved without raising the tax burden, a situation that is expected to continue in the years to come.

Our second policy focus has to do with efforts to liberalize the goods and factor markets and privatize public enterprises. In this connection, I should mention labor market reform, achieved through social dialogue, which has created a climate of confidence with a very beneficial impact in terms of job creation and ensuring stable economic recovery. This policy of promoting deregulation and competition within Spain's economy is a vital step in ensuring that, once Spain is inside the EMU, any problems affecting the Spanish economy will be absorbed by a flexible pricing system that minimizes their impact on output and employment.

These policies have led to economic growth above inflation and the European average, with the result that employment is being created at a rate of approximately 3 percent, in an environment of price stability—Spain's inflation is below 2 percent a year—with a current account surplus and a declining public deficit.

We are living in an era of rapid and sweeping changes. This process is confronting us with a succession of new challenges; however, it is also a source of major opportunities for achieving stable growth, sustained economic development, and widespread prosperity. If we are to accomplish these unquestionably ambitious objectives, we must stand ready to shoulder our respective political responsibilities.

Statement by the Governor of the Bank and the Fund for Sri Lanka

G.L. Peiris

I join my colleagues in expressing our most sincere gratitude to the government and the people of the People's Republic of China, in particular to the government of the Hong Kong Special Administrative Region and the Hong Kong Monetary Authority for the excellent arrangements made for these meetings in this magnificent city and for their most gracious hospitality.

It is encouraging that the world economy has continued to grow steadily with relatively low inflation. The commitment to contain inflation by many countries, including our own, through a reduction of fiscal deficits has shown positive results. This would suppress inflationary expectations, lead to more stable financial and exchange markets, and help sustain the high growth rates.

The proposed European Economic and Monetary Union (EMU), with the euro becoming the single currency in the region with the dawn of 1999, would undoubtedly be a milestone and a turning point in the world economic and monetary relations. We hope that it would promote an economically stronger Europe and make a greater contribution to global prosperity. The implications of EMU and the euro for international exchange and financial markets need to be carefully watched.

We believe that the risks and challenges due to rapid globalization need to be addressed through sound macroeconomic management and strengthening of the financial system. We welcome the timely efforts of regional and multilateral cooperation in assisting affected countries recently. In particular, we commend the Fund for its prompt response in extending assistance to such countries under its emergency procedures. Nevertheless, let me emphasize that it is extremely important to have in place a more coordinated approach by the multilateral and regional financial institutions in this area.

Turning to the Bretton Woods institutions, we note with great satisfaction the progress achieved by the Fund and the Bank in 1996 and in 1997. We congratulate the two institutions for their commendable performance, in particular the Managing Director of the Fund and the World Bank Chairman for their able leadership.

We are also very encouraged by the progress the two institutions have been able to achieve, in collaboration with other multilateral and bilateral creditors, in implementing the Initiative for Heavily Indebted Poor Countries (HIPC Initiative). However, despite the great enthusiasm and the hard work that has been put into this initiative by the Fund and the Bank, and the excellent cooperation they have got from other creditors, there is the risk that delivery of relief might not materialize as ultimately envisaged if adequate funds are not mobilized in time for this initiative. Furthermore, we are deeply concerned that paucity of resources might derail not only the HIPC Initiative but also the interim Enhanced Structural Adjustment Facility. I would therefore urge my colleagues here to make a firm commitment of their assistance to the initiative as early as possible, so that the momentum created for delivery of relief under this most innovative initiative would not be dissipated.

We commend the Fund's Executive Board for reaching a consensus on the issue of a special one-time allocation of SDRs. We are pleased that a resolution to amend the articles to give effect to this one-time allocation for a more equitable distribution of SDRs among the participants has been already adopted in this assembly. We wish to reiterate, however, that this amendment should in no way diminish the existing power of the Fund to make general allocations in the future when the need arises.

We also commend the Fund for reaching an agreement on a quota allocation under the Eleventh General Review of Quotas. We are, however, somewhat disappointed that under the proposed formula for allocation of quotas, the voting power of the developing countries would decline. We would, therefore, urge strongly that any future allocation of quotas should adequately reflect the increasing weight of the developing countries in the global economy. To this end, we would encourage the Fund to evolve a more rational formula for calculation of quotas before the next General Review of Quotas.

As regards two other important issues on which the Fund's Executive Board is presently conducting deliberations, namely, capital account convertibility and governance, while we appreciate the progress so far made, we would caution the Board to proceed very carefully in these two complicated and sensitive areas.

While we support in principle the present efforts of the Fund to amend the articles to bring capital account transactions too under its jurisdiction, we wish to voice some concerns in this regard. As we are aware, the financial systems in most of our developing member countries, particularly the banking systems, are not yet fully developed. These have to be further developed and strengthened before countries could open up their capital accounts. The amendment should therefore provide for a gradual process of liberalization, in tandem with a country's progress in its structural reforms. Moreover, even after liberalization of its capital account, a country should have the liberty to reimpose such controls in times of financial turmoil or in the interest of national or international security. Also, we believe that foreign direct investment is not an area that should come under the Fund's jurisdiction under the contemplated amendment.

With regard to the issue of governance, we are aware that the World Bank and several other international financial institutions are also presently deliberating on this issue. While we support, in principle, the Bretton Woods institutions placing increasing emphasis on governance issues in their relations with member countries, we would caution that their attention should be confined to such aspects of governance as would have a bearing on the economic performance of a country; they should also steadfastly adhere to the principle of evenhandedness of treatment in dealing with such sensitive issues.

Turning to the World Bank, we wish to express a special word of appreciation for the tremendous efforts the President, Mr. Wolfensohn, has been making under his Strategic Compact to change the culture of this institution and to convert it into a highly dynamic organization, fully sensitive to the aspirations and needs of the millions it is mandated to serve. We appreciate the many innovative improvements he has introduced to the system and in particular the integration of social aspects of development in all Bank-funded programs. We wish him all success in these efforts.

In view of the rapid decline of official development assistance over the years, the crucial role the International Development Association has to play as a vehicle of assistance to the poor hardly needs emphasis. We would therefore urge the donor community to support it to adequately discharge this increasing burden.

Finally, let me speak a few words about my own country, Sri Lanka. Our economy has continued its steady growth in the first half of this year after its pickup in the latter half of 1996. Investor confidence, both domestic and foreign, has strengthened resulting in a rapid expansion of investment. Manufacturing and service sectors are growing steadily and export performance is robust. At this rate, we hope we would be able to achieve the projected growth rate of 6.1 percent this year in contrast to a 3.8 percent rate last year. Inflation is on a downward trend and is currently at 7 percent. Both the fiscal deficit and external current account deficit are projected to decline progressively. On the structural front, privatization and financial sector reforms have been accelerated. In particular, financial institutions including banks are being strengthened through closer supervision. We have been able to retire a significant portion of our public debt recently with the proceeds from privatization. We would be making every effort to sustain these positive trends in the economy in the medium term, and indeed, to improve upon them.

Statement by the Governor of the Fund for Swaziland

Themba N. Masuku

On behalf of my delegation and myself, it gives me great pleasure and honor to make a statement on this year's occasion of the Annual Meetings of the World Bank Group and the IMF.

The Economy

The Kingdom of Swaziland is a small open economy with a population of about a million people, and a real GDP averaging $324.4 million in the past three years. Swaziland's economy has been growing at an average real rate of 2.6 percent over the past five years, with a declining velocity. Such growth has been backdropped by high population growth rates (recording 3.2 percent a year), declining real capital inflows (both private and official bilateral and multilateral), and rising inflation. A direct consequence of this economic performance has been declining standards of living, growing unemployment, and a general impoverishment of the people of Swaziland. Currently, the rate of unemployment is estimated above 30 percent. This is quite high for an economy of less than a million people. With a large young population, Swaziland is faced with a high social dependency ratio.

The threat of globalization is quite "real" in Swaziland. Its impact is going to be twofold. First, as it is in a free-trade area with South Africa, under the Southern African Customs Union (SACU), Swaziland—together with the other smaller member states—is expected to take a faster lane in adjusting to the General Agreement on Tariffs and Trade requirements. This will be a difficult and costly exercise for the economy of Swaziland. Second, real threats are being observed on Swazi industries, engaged both in the domestic and external markets, as competition is likely to overwhelm them. This competition will offer little assistance to the problem of unemployment facing the economy. To a great extent, this will have far-reaching implications on revenue generation.

The government and the people of Swaziland do realize that there exists an urgent need for the economy to adjust to this new world trade order. This process has already started, in earnest, with a robust and objective public sector reform, under the themes, "Economic and Social Reform Agenda" (ESRA) and the "National Development Strategy" (NDS). These are two complementary programs, where the NDS is designed to forge long-term strategies for the economy, while ESRA synthesizes short-term programs for implementation within a specified time frame of two to three years. Both of these are closely monitored with performance targets. Nonetheless, Swaziland remains concerned about the uncertainty regarding the success of its adjustment, in the light of unfolding events in the world arena.

These concerns take us directly to two related challenges that face Swaziland, namely, competition from neighboring economies, its ability to attract the requisite capital for funding its developmental programs and the lack of a sufficient human resource base.

Flows into Swaziland

Like the rest of Africa, Swaziland is deeply concerned about the decline in capital flowing to the region, in particular, official development assistance (ODA) resources. I can single out International Development Association (IDA) allocations in this regard. Owing to its relative economic size and a low population, which together translate into high levels of per capita income, Swaziland finds itself unable to access IDA funding of its developmental programs. This classification ignores numerous crucial constraints faced by small landlocked countries such as Swaziland, such as absence of scale economies, insufficient skills, high levels of ecological fragility, etc. These constraints coupled with the effects of the new world order, deal an unsustainable blow on not only the economy of Swaziland, but also similar economies. It is our plea, therefore, that these be reconsidered for more concessionary financing, in order to successfully achieve their developmental programs. An alternative to the factors being considered for such funding could be a creation of programs that will push these economies further away from the fringes, in order not to be threatened by the possibility of falling back into the net.

Over the previous five years, since 1993/94, grant finance to government operations has averaged 2 percent of revenue. An improvement in these flows can be greatly appreciated, taking cognizance of the need to remain independent.

After noting this development, there has been a shift in policy emphasis in order to sufficiently grow the economy from reliance on official to private capital flows. The government of Swaziland has remained cautious about the nature of capital flowing into the economy. Attention has been put on non-debt-generating forms of capital, such as equity capital flows. While private capital flows, in particular foreign direct investment, have increased in nominal terms, these have declined in real terms as a result of high levels of inflation. Foreign direct investment has been growing at a rate of 3.1 percent over the period, while inflation has recorded an average of 11.3 percent. The implications of this cannot be overemphasized.

Another very significant reform initiative that Swaziland is undertaking relates to governance. In this respect, a constitutional commission has been put together to review the country's constitutional process, which it is hoped will not result in a loss of credibility and will maintain wide acceptability. The government of Swaziland welcomes the recent announcement by the Executive Board of guidelines covering the role of the IMF in issues of governance. It is hoped that the advice and technical assistance that the IMF has been offering will be extended and further enhanced by this move.

Even though exchange controls have been relaxed in South Africa, offering wider options for South African capital and thus reducing potential flows to Swaziland, we view this step as an opening of wider financial integration for a more efficient allocation of resources among other benefits. Swaziland fully welcomes these developments as proponents of liberalization and is geared to fully follow suit in the spirit of the Common Monetary Area (CMA) arrangement, with the aim of delivering a high level of capital account convertibility. Significant strides have already been taken in this direction under the Financial and Investment Sector Coordinating Unit of the South African Development Community (SADC) and the Macroeconomic and Financial Management Institute of Eastern and Southern Africa, with its headquarters in Harare.

Much as the Swazi government realizes the fundamental need to generate private capital flows, it also notes that this should not be a substitute for ODA flows. I say this because the infrastructural provisions are still quite lacking in the economy, and they need urgent enhancing. Only government can ensure the delivery of such services, which in turn applies significant pressure on public resources. After a history of budget surpluses, the government has started recording deficits reaching a level of 4.5 percent of GDP in 1996/97 at an average cost of borrowing of 13.7 percent—local loans—and 6 percent—foreign loans, excluding exchange risk. Deficits are set to increase in the coming years as large developmental projects come on stream, making it even more important to access concessional funding.

The government of Swaziland is considering more creative forms of financing, one of which is to develop and deepen the domestic financial market. In this front, Swaziland commissioned a detailed financial sector study in 1994 whose main objective was to reform the sector in line with various challenges facing the economy, in order to provide the "necessary growth dynamic within the Swazi economy." An issue in the international capital markets is another option, but one that will be constrained by exchange rate volatility. In this light, the government of Swaziland has already put together a borrowing strategy, which will be implemented in the next budget.

The above notwithstanding, the government has embarked on a number of schemes to harness domestic savings towards wealth developing and enhancing programs, with the sole aim of empowering and increasing reliance on indigenous investment. These involve guarantees for small business enterprises, exporting industries, and public enterprises. A significant amount of domestic savings find their way out of the economy. As part of the initiative of harnessing savings, Swaziland is consciously putting together market-based structures that will attract these resources back into the economy to fund development.

International and Regional Comparison

Swaziland's rather forlorn prospects are taking place amid a backdrop of impressive regional and international economic performance. World output growth is expected to improve further in 1997, to record 4.4 percent from levels of 3.7 and 4 percent in 1995 and 1996, respectively. Growth has also been impressive at the developing country level, and even more impressive for countries in Africa, whose performance has been upbeat since 1994–95. Africa recorded its best performance in 1996, when it recorded 5 percent. While growth in Africa is expected to grow at 4.75 percent in 1997, prospects for Swaziland are quite modest.

While advanced countries view the globalization process with the belief that it harms the interests of workers, especially unskilled, through immigration, trade, and capital flows, it is our belief that the gains far outweigh the costs to these countries. I will agree with the view of the IMF that ". . . rather than attempting to limit globalization, the appropriate policy response, is instead, to address the underlying structural rigidities that prevent labor markets from adjusting. . . ." Education and training are the best ingredients to this exercise and Swaziland would benefit greatly from such an initiative. I am confident that Swaziland is not alone in this thought, as recent *World Economic Outlook* data reveal that low-income countries are faced with low stocks of human capital, poor resource bases and political instability. These are crucial complementary factors for growth and development.

Conclusion

The task facing Swaziland in particular, and the SADC region in general, is onerous. We shall need all the assistance we can get from the world community. What we remain cognizant of is the need to access capital that will not threaten current debt levels and thus its sustenance.

Statement by the Alternate Governor of the Fund for Switzerland

Kaspar Villiger

At the outset, I would like to thank the Chinese authorities for their kind hospitality and excellent organization of our meetings.

The present situation of the world economy and the outlook for the coming years are bright. In most of the advanced economies, stability-oriented macroeconomic policies over the past years have led to historically low inflation rates and substantial fiscal consolidation. Economic growth is picking up in all countries. In most developing countries, strong adjustment efforts and ambitious reforms are bearing fruit. Solid economic growth is now a widespread phenomenon and emerging market economies have continued to forge ahead. In most transition economies, positive signs now prevail before the figures for economic growth.

However, as is always the case with statistics, averages hide a large part of the economic reality. While some advanced economies continue to struggle with high unemployment rates, currencies of various emerging market and transition economies have come under severe pressure. Furthermore, a number of these countries have experienced severe setbacks stemming from unresolved political and economic problems.

Turning to the International Monetary Fund, I note with satisfaction the progress that has been made in strengthening surveillance. By enhancing the focus of bilateral and multilateral surveillance and by paying increased attention to crucial areas such as the soundness of the financial sector and good governance, the Fund's role has been strengthened. Important steps have been taken to achieve the goals we have set in the Declaration on Partnership for Sustainable Global Growth. In this context, we should remind ourselves that sustainable growth also means taking into account the effects of policy measures on a country's natural resource base. I would like to invite the Fund to include this aspect in its surveillance activities.

I welcome the efforts made to increase the Fund's transparency. In this respect, I appreciate the initiative to release press information notices summarizing Article IV consultations upon request of the interested countries. The success of this initiative shows that it fills a true gap in the information policy of the Fund. Further steps should be made in direction of more transparency.

I note with satisfaction that the Executive Board has reached, after years of intense discussions, an agreement on a special one-time allocation of SDRs, which will put all member countries on the same footing. I hope for a swift amendment of the Fund's Articles of Agreement.

The recent years have been characterized by a huge increase of international capital movements. Many emerging economies have strongly benefited from large capital inflows. We should be careful not to condemn this phenomenon in the wake of the recent developments in Southeast Asia. These have only underscored how crucial a number of preconditions are for a successful capital account liberalization. We fully support the Statement on the Liberalization of Capital Movements, which stresses this point. The Fund is well placed to assist in the establishment of an orderly liberalization and I encourage the Executive Board to speed up the conclusion of this important issue.

I welcome the recent decision to increase quotas. In order for the Fund to be able to fulfill its mandate, resources should broadly keep pace with the world economy. As the recent developments have shown, demand for Fund resources can increase unexpectedly.

I warmly welcome the rapid progress in the implementation of the Initiative for Heavily Indebted Poor Countries (HIPC Initiative). Six countries have embarked on the process. This underscores that the HIPC Initiative is now really under way. However, I am worried both about the rising cost and the fact that financing assurances for the Enhanced Structural Adjustment Facility (ESAF)–HIPC Trust have not been as forthcoming as expected. I urge all members to contribute in order to ensure a fair burden sharing.

I would also like to reiterate that the initiative represents an exceptional effort by the international community for countries who are ready to deepen their adjustment efforts. Debt relief under the initiative should mark the completion of comprehensive structural reforms, which should enable the country concerned to eliminate growth-impeding debt overhang. In this respect, it is important to carefully and objectively assess and to provide the necessary debt relief to accomplish this goal.

Since the last Annual Meetings, the World Bank has decided to embark on a far-reaching program called the Strategic Compact to effectively further its capacity to fight poverty. This reform program affects not only the organization of the Bank, but almost all its activities. Three aspects appear to us to be particularly relevant: first, the development of new lending and assistance instruments; second, the increase of operational resources having a direct impact on project quality; and third, the focus on tasks for which the Bank has comparative advantages. As to this last point, I would like to encourage the Bank to take into account the work done by other multilateral organizations, especially in the area of capacity building.

One important goal of the Strategic Compact is to fight corruption. I welcome the initiative of the Bank to put corruption on the international agenda and to address this issue in a comprehensive way. The Bank will have to make sure that its procurement rules are rigorously applied and assist the borrowing countries in strengthening their implementing capacity. But it will also need to keep a close eye on the dynamic nature of corruption. This requires the Bank to scrutinize its policy and adapt it frequently.

Turning to the Development Committee, we should seize the opportunity that these meetings offer to discuss important matters affecting the Bank, such as IDA allocations, share allocations, or grants to countries and regions in need of reconstruction. To give guidance on such important subjects to the Board of Executive Directors would not impair its prerogative because the Board would retain the right to make proposals to the Ministers and to act on the guidelines as the Executive Directors deem necessary.

Finally, I would like to mention a subject of constantly growing concern to our chair: the increasing disparity of income in the countries of Eastern Europe and Central Asia. We have all seen that there is no magic solution to the transformation process and that it is very painful for large segments of the populations concerned. The ongoing deterioration of social indicators in this region, however, is particularly troublesome. There is a danger that some countries in this part of the world will evolve into a two-tier society leading to social turmoil and consequently endanger the modest economic progress achieved so far. Accelerating structural reforms in order to obtain sustainable economic recovery and putting in place in parallel targeted social safety nets is therefore crucial in those countries.

Let me end by expressing the appreciation of the Swiss authorities to the management and staff of both institutions for their dedication, their skill, and for the impressive quality of the work performed during the past year. Our concern is that these institutions could be submitted to political interferences. In order to preserve their efficiency and reliability, they have to be governed by their Articles of Agreement and not by the current political agenda.

Statement by the Governor of the Bank for the Republic of Tajikistan

Yakhyo Azimov

It is a great pleasure and honor to have the opportunity to make for the first time a presentation on behalf of the Republic of Tajikistan at this memorable meeting. I would like to thank the Chairman of the meeting for the opportunity to speak today and thank the government of China and the authorities of Hong Kong for their hospitality and cordial welcome.

Following the collapse of the former Soviet Union, Tajikistan became an independent republic on September 9, 1991. For the most part, our country was unprepared for this new political reality, and the disintegration of the former central planning system aggravated the deepening economic crisis. Moreover, a number of adverse political factors resulted in a civil war, which broke out in 1992 and peaked from mid- to end-1992. With varying degrees of intensity, the armed conflict lasted for four years.

The civil war and the massive economic decline as a result of the transition from a centrally planned to a market economy, combined with a lack of significant economic adjustment, until the mid-1990s, have had a serious negative impact on the physical infrastructure, economic assets, and human resources of Tajikistan.

All the above resulted in a sharp economic decline, increased unemployment, and abject poverty. At the end of 1996, the estimated GDP was only about 40 percent of its 1991 level. Many industries are operating at less than a quarter of their previous capacity.

In the agricultural sector, the production of cotton—the main agricultural staple and the main source of foreign exchange and fiscal revenues—plummeted threefold in comparison with the late 1980s. Recently there has been an increase in the production of wheat due to the liberalization of wheat prices, implemented at the end of 1995 and the beginning of 1996.

Unemployment in Tajikistan, which, according to World Bank estimates, is 40 percent, is the highest among the Commonwealth of Independent States (CIS) countries. Per capita income in Tajikistan is $330. About 80 percent of the population of Tajikistan lives in abject poverty, defined as the lack of basic necessities, making it one of the 20 poorest countries in the world. However, Tajikistan has not even been granted the status of least developed country but is fully eligible for International Development Association (IDA) programs.

In the face of the deepening economic crisis, the government of Tajikistan introduced the national currency in May 1995, which enabled promotion of an independent monetary policy. At the end of 1995, the government of Tajikistan approved an economic reform program, which defined four top priorities: macroeconomic stabilization, structural reforms in the agricultural sector, privatization of state-owned enterprises, and continued provision of a minimal level of social protection to the population.

All this brought about positive results in the field of trade and price liberalization, regulation of exports and foreign exchange transactions, and the establishment of a regulatory framework, aimed at accelerating privatization and attracting foreign investments into the country.

In 1996, with assistance from the World Bank and the International Monetary Fund, Tajikistan improved its macroeconomic policy. Tightened controls over credit expansion, the liberalization of the foreign exchange market, and measures to improve the budgetary situation by broadening the tax base and reducing subsidies decreased inflation from 2,000 percent in 1995 to 40 percent in 1996. The exchange rate was also stable throughout the year, following a sharp decline in the second half of 1995. Tajikistan reached agreement with its foreign creditors on debt restructuring, the debt having been accumulated over a short period of time and reaching $850 million at the end of 1996.

However, by the beginning of 1997 the positive results achieved during 1996 had been lost. The implementation of the economic reform program was affected at times by the worsening of the political situation, which led to the suspension of programs supported by international organizations.

Another reason for the worsening of the economic indicators in 1997, notwithstanding GDP growth, was the slackening of budgetary discipline and control over credit expansion at the end of 1996 and during the first half of 1997. This resulted in a decline in the exchange rate, an increase in inflation, and arrears of expenditure from the state budget.

On October 31, 1996, at the request of the government of the Republic of Tajikistan, the first Consultative Group meeting was held, during which $185 million was pledged for balance of payments support, technical assistance, and investments for 1997. However, the better part of this assistance has not been disbursed owing to fluctuations in the monetary policy that coincided with the deterioration of the economic situation at the beginning of 1997 and suspension of the implementation of a number of programs supported by international organizations.

This situation only confirms the fact that maintaining and strengthening the progress achieved in the difficult search for ways to ensure peace and national accord—through peace negotiations conducted under the aegis of the United Nations that ended on June 27, 1997 and resulted in signing of the General Agreement on Peace and National Accord in Tajikistan—are essential for successful and swift implementation of reforms in the country. These reforms are aimed at overcoming the economic crisis and at ensuring the development of Tajikistan as a democratic, secular state under the rule of law, with a strong economy.

The urgency of the task of restoring macroeconomic stability in the short term is obvious. The high inflation rates, large budget deficit, sizable trade distortions, high foreign debt, and reduction of the role of the banking system in the provision of financial intermediation services are hindering the growth of private investment and distorting market incentives. It is our intention to accelerate the implementation of land reform and the privatization of state-owned property.

However, it is becoming increasingly obvious that the successful implementation of measures of macroeconomic stabilization and structural adjustment is impossible without international support for Tajikistan's leadership efforts to implement the General Agreement on Peace and National Accord in Tajikistan. The National Reconciliation Commission, which includes representatives both of the government and the former United Tajik opposition, is presently operational in Dushanbe.

Today Tajikistan is in urgent need of international support and financial assistance for economic rehabilitation and development, which would form the basis for ensuring stability not only in the Republic of Tajikistan, but also in the vast Central Asian region.

I would therefore like to urge the World Bank and the IMF, as well as the other international organizations and the donor countries, to consider the possibility of extending additional financial support to the Republic of Tajikistan.

The government of the Republic of Tajikistan estimates that the implementation of the General Agreement on Peace will require an additional $80 million during 1997–98.

At the same time, stabilization of the economic situation, acceleration of privatization, and market-based adjustment in agriculture would provide a sounder basis for improving social conditions, tackling poverty issues more efficiently, and renewing the flow of private investments into the economy. Strengthening the peace process and accelerating economic adjustment constitute two interconnected and interdependent processes.

The Republic of Tajikistan is rich in mineral, water, and energy resources, and has a considerable potential in labor resources. A legal and regulatory framework conducive to foreign investment has been established. The utilization of this potential with the assistance of the World Bank and the IMF, the donor countries, and the foreign investors could to a large extent solve the socioeconomic problems of both Tajikistan and its neighboring countries, as well as the water and energy problems not only of all the Central Asian countries, but also, in part, of Afghanistan, the People's Republic of China, the Islamic Republic of Iran, and Pakistan, as well as of the Aral Sea.

I would also like to express the enormous gratitude of my people and of the government of the Republic of Tajikistan to Mr. Wolfensohn and Mr. Camdessus, to the donor countries, and to the other international organizations for the assistance and support provided so far. I would like to assure you that the government of the Republic of Tajikistan is firmly committed to securing peace and national accord and to implementing market adjustments in the economy at an accelerated pace. I am convinced that, in order to ensure these transformations, the Republic of Tajikistan will receive all the support and assistance it needs.

Statement by the Governor of the Bank for Thailand

Thanong Bidaya

I deem it an honor and a privilege to address the 1997 Joint Annual Meetings. On behalf of the people and the government of the Kingdom of Thailand, I would like to particularly express our appreciation to the government of the People's Republic of China and Hong Kong for the excellent arrangement for the meetings.

It is most imperative to present before this meeting Thailand's bold and substantive program to overcome the present macroeconomic and financial sector problems and financial disruption that is confronting not only Thailand but also all other Asian economies.

I wish to also express our deep and sincere appreciation to the IMF, the World Bank, the Asian Development Bank, Japan, and all Asian and Pacific friends for their timely support and assistance extended to us in overcoming these problems. We are confident that Thailand will return to its former long-term sustainable growth path by the year 2000.

Our program of action is divided into two concurrent phases. The first phase is macroeconomic stabilization and rehabilitation of the financial sector. Both are designed to address the issue of restoring confidence in the viability and stability of the Thai economy and the Thai financial system. The second phase will deal with medium-term prospects for sustainable growth, improving competitiveness of the Thai exports, and industrial restructuring.

On the macroeconomic front as regards the reduction of the current account deficit from 8 percent in 1996 to 5 percent in 1997, and 3 percent in 1998, the first part of the reduction has been carried out by cutting the budget for FY 1997 by over 100 billion baht and instituting the value added tax increase from 7 percent to 10 percent. For FY 1998, we aim for a fiscal surplus of 1 percent of GDP, and the budget has been approved this week by the parliament consistent with this objective. Additionally, state enterprise investments will be reviewed and reprioritized with the assistance of the World Bank and the Asian Development Bank to focus on the most essential investments.

The problems of financial sector rehabilitation are a major concern and many questions have arisen on the strategy to achieve an early and comprehensive solution. We regard our present difficulties as offering the opportunity to solve the fundamental problems of the system in a transparent way so that it can better manage the risk and rewards of large capital inflows.

In August, we agreed with the IMF on the basic principles of our strategy to rehabilitate the financial sector as an integral part of achieving broader macroeconomic stability and sustainable economic growth. Now, we are moving rapidly to finalize the details of the strategy, which began with the suspension of 58 finance companies that were financially weak and in difficulties. The central objectives briefly are:

- to restore confidence of depositors, creditors, and investors in the financial sectors;
- to restore the solvency, profitability, and liquidity of the broader financial system;
- given the large need for recapitalization, more stringent rules of loan classification and provisioning, and the limited availability of local capital limits on foreign participation will be liberalized in order to broaden potential sources for capital injection;
- to effect medium-term reforms in legal, regulatory, supervisory, and public disclosure practices, and to strengthen the structure of the financial system and create stronger incentives for market discipline;
- all shareholders and creditors of subordinated debt will take the first hit in the burden of rehabilitating financial institutions and payments of their losses;
- in the suspended companies, creditors will also take share in these losses; and
- uniform rules will be applied, and strict criteria will be set on the suspended finance companies regarding reopening, merger, liquidation, and repayment of liquidity support from the Financial Institute Development Fund.

The principle of socializing debt will be avoided. However, if necessary, the use of public funds to rehabilitate the ailing financial institutions will be minimized and be tied to strict conditions to avoid moral hazard.

The restructuring process will be directed and coordinated centrally by the Bank of Thailand under the supervision of the Minister of Finance and will directly have the full support of the Royal Thai government. Our goal is to establish a strong and viable financial system, complemented by the most stringent international standard criteria, which will restore the full confidence of both domestic and international creditors and depositors. This will be a firm and durable basis upon which normal credit flows and investments both into and within Thailand can be resumed and maintained for private and public investments.

Because of the urgent need to make concrete decisions now to restore confidence, I have set a deadline for completing all details of this strategy, which is being formulated with technical assistance from teams of the World Bank and the IMF by October 15, 1997. On that date, I intend to announce the full details that will determine our future policy on this issue, and it will be binding for all agencies concerned. There is full political consensus on these issues, and there should be no further doubt, or question about, the direction in which we are determined to move. I believe that this will restore full confidence on the part of all concerned.

Confidence is a two-way street where one cannot exist without the other. I would like to reassure market players, friends, and well-wishers in the international financial community that the Royal Thai government will forcefully address the underlying factors that have contributed to the current crisis. We shall and must solve the immediate issues of financial sector reforms and the restoration of normalcy and calm in the value of the baht. We pledge that we shall never waver from any and all actions required to restore stability, confidence, and prosperity to our people, the region, and the rest of the world.

The task is clear. The targets have all been agreed upon. The understanding and partnerships of the world financial leaders, both public and private, to stand by us will be the hallmark of true international financial cooperation. We look for your continued hand of friendship and support in this task to restore peace and calm for the Association of Southeast Asian Nations, Asia, and the world.

Let me now turn to the issues related to the policies and operations of the Bank. I wish to congratulate the Bank for another year of successful operation under the leadership of Mr. James Wolfensohn and his vision, which is embodied in the Bank's Strategic Compact. We firmly support the Strategic Compact, which is now under implementation, and look forward to the tangible result, particularly in terms of effectiveness and results on the ground. However, such changes should not create higher burden to the clients in terms of higher costs for the Bank's products.

On official development assistance (ODA), we recognize the falling trend, which stands at about $41 billion in 1996 compared with $51.7 billion in 1995. However, while the private capital flow to developing countries continues to be on the rise, which is a welcoming trend, the destination of the private flow tends to be limited to a few emerging markets. We, therefore, would like to urge the donor communities to redouble their efforts to reverse the decline in ODA, especially at this time when the majority of developing economies are undergoing reform.

With regard to the Bank's product, we welcome the development of lending and guarantee products aimed at tailoring to various client needs and encouraging the Bank to continue to improve these lending products so that borrowers can better manage their outstanding debt. In addition to greater choice of products, further improvement in the Bank's response to client needs for both lending and nonlending products should be strengthened.

We support the Bank's policy regarding the allocation of net income and urge the Bank to continue according high priority to waivers for interest and commitment charges as an appropriate way to ensure equitable distribution of benefits of the Bank's operations.

Let me now turn briefly to Fund matters. We welcome the agreement achieved in the Eleventh General Review of Quotas and, as a recent beneficiary of Fund resources, would strongly urge for its expeditious ratification. We also welcome the agreement obtained on the issue of SDR allocations. This will ensure that members can enjoy the fruits of an equitable share of international liquidity.

On capital account convertibility, given the complexity and sensitivity of the issue, in particular in view of the recent currency turmoil in the Southeast Asia region, we would be more comfortable if the Fund would proceed in a more cautious and gradual manner. In addition, we believe that giving the Fund jurisdiction over the capital account should not be construed as an obligation for members to liberalize, but rather for the Fund to ensure the orderly and smooth operation of international flows. In this regard, we believe that a number of aspects of the recent currency turmoil belies the issue of externality—for example, investors, confidence in a country or a region is to a significant extent determined by factors beyond a country's control, namely, the contagion effect—and therefore calls for the Fund, as a multilateral institution, to coordinate and perhaps internalize such externality. Moreover, efforts should be made to devise an appropriate mode of monetary operation to deal with the dilemma of exchange rate versus growth effect of high interest rate policy to ward off currency attacks.

In conclusion, on behalf of the Royal Thai government, I would like to take this opportunity to record our heartfelt gratitude and appreciation for the Fund's expeditious approval of the request for our Stand-By Arrangement, and for the overwhelming support we have received from bilateral creditors, international development institutions, namely, the IBRD and the Asian Development Bank, and members of the Bank for International Settlements. The spirit of solidarity and faith shown at the Tokyo Meeting and subsequent financial assistance demonstrate the strong international consensus underlying the efforts to help Thailand during this most difficult period. Thailand is fully cognizant that the process of adjustment will clearly take time. We wish to reaffirm our commitment to this strong program. The help, goodwill, and support of the international community will gradually and ultimately bring the Thai economy back on a sustainable and balanced growth path.

Statement by the Governor of the Bank for Tonga

Kinikinilau Tutoatasi Fakafanua

I welcome the opportunity to address this gathering of distinguished delegates and esteemed representatives of the World Bank, the International Monetary Fund, and other financial institutions. I would like to express my deep appreciation for the hospitality and arrangements made by the government and the people of Hong Kong, and the staffs of the World Bank and the IMF, for this meeting.

These Annual Meetings provide us with the opportunity to discuss common interests and problems that link many different people from many different economies and walks of life. We note that, despite the recovery of the world economy in recent years, many of the problems and issues facing the smaller emerging island countries represented here today remain.

The economic climate for development assistance at the global level has steadily become less favorable, with only a handful of donor countries exceeding the UN target for official development assistance of 0.7 percent of GNP. In the face of declining aid flows, most countries of the South Pacific region, including the Kingdom of Tonga, are developing a framework that will encourage foreign direct investment as an alternative source of capital for development.

Tonga has experienced an average GDP growth rate of about 1–2 percent in the recent past. For the last two years, inflation has remained below 3 percent and, despite the rapid decline in the level of foreign reserves, has been stabilized above the benchmark of three months of import cover.

Like many small island countries in the South Pacific, Tonga is vulnerable to the effects of natural catastrophes, such as cyclone Hina, which struck in March of this year. While the effect of the cyclone is tolerable, it has caused a real setback to the overall economic activity in the agricultural sector. This incident reminds us of the vulnerability of our economic and social development to natural calamities, which can undermine our efforts to sustain economic growth and living standards at a reasonable level.

In addition to consolidating and extending the current public sector reforms and improving the soundness of the banking system, the government is initiating policies to stimulate economic growth in the future and to focus on improving the climate for private investment.

The government of Tonga considers it important that the government and the private sector work together to establish the most appropriate way to stimulate investment, with the clear understanding that in the final analysis, economic viability is the critical criterion for guiding investment. While it may be argued that there is no blanket international formula that leads to rapid economic growth and while that intangible "confidence" of foreign investors is required, it too escapes a global relevant characterization and definition.

To achieve a level of economic growth acceptable to multilateral development institutions, it is not just a matter of creating an enabling environment or of stabilizing the main macroeconomic indicators. There are other important factors in the growth equation, such as the linkages between economic growth and social development and economic growth within the context of economic vulnerability, given our geographical location, size, and topographical layout. As you are aware, the Kingdom of Tonga is located within the world's largest ocean; there are 515 kilometers between the most northerly and most southerly islands of the Kingdom; and Japan, our largest export market, is 12,180 kilometers away.

These are linkages we ignore at our peril and at the risk of political dislocation and social upheaval. It is the mitigation of this risk, in our view, that ought to be the basis of future programs of development assistance to our country.

So, while we work to strengthen our economy and economic performance, the pressures of structural adjustment and the implementation of the fundamental changes necessary for the transition to a market-driven economy that will enable us to compete in the new global environment must not be considered in isolation from our social development and economic vulnerability. For the government and people of Tonga, growth alone is not sufficient—the pattern and quality of growth are also important considerations.

We look forward, in the course of our regular consultations with the staffs of the Bank and the Fund, to a greater focus being given to addressing the issues of the underlying causes of economic and environmental vulnerability, which hinder the achievement of our social and economic developmental aspirations.

To conclude, I wish the Bank and the Fund another successful year of operations, and we look forward to continued future cooperation.

Statement by the Governor of the Fund for Turkey

Günes Taner

I have the honor of addressing you on the occasion of the Annual Meetings of the World Bank and the International Monetary Fund. At the outset, allow me to congratulate the heads of both institutions on another successful year.

According to the latest estimates, output will increase 4.5 percent during 1997 and 1998. This marks the fourth wave of rapid growth since the 1970s. The growth of output is accompanied by a check on inflation in almost all countries. The progress made in the transition countries, the high growth of East Asia—though hindered by recent financial crises—the recovery in continental Europe, and the strong outlook of the U.S. economy all indicate that the global expansion of output will continue. However, recession periods following high-growth years are a lesson to be learned from history. Therefore, although at present there is no indication of a slowdown, developments must be watched carefully by every country.

A reduction in the budget deficits of industrial countries, especially in Europe for the expected European Economic and Monetary Union, is welcome progress for all of us. Another issue to be tackled is the inflation level. Although the world is experiencing the lowest inflation rates since the 1960s, inflationary pressures must be kept under strict control, especially in countries where resource utilization rates are high. High capital inflows to emerging market countries and the reduction in the yield difference also indicate the increasing involvement of developing countries in world capital markets. However, the latest experiences of Thailand and the Czech Republic further reinforce the belief that a healthy financial system, as well as sound macroeconomic policies, is essential for sustainable development.

Unemployment still occupies the highest priority for governments in many developed countries. It should be emphasized that trade with countries with low labor costs is not the source of prevailing unemployment in Europe. Rather, the structure of the job market and unemployment schemes stands as the basic reason for high unemployment, especially in continental Europe.

The progress of developing countries is also remarkable, with 6.5 percent real growth. Efficient implementation of prudent macroeconomic policies is vital for keeping the pace of development. The recent pressures on Thailand serve to warn all developing countries with considerable external deficit positions. The soundness of financial systems in the country has crucial importance especially under crisis conditions.

Macroeconomic stabilization, trade liberalization, and the introduction of free market economy practices can be regarded as preconditions for sustained growth. But in order to continue on a path of growth, a second wave of reforms targeting social development should be initiated immediately after results of the first series of reforms are obtained. We are pleased to see the rising share of developing countries in world output, which indicates the increasing share of these countries in the world's welfare.

The recent discussion on capital account convertibility is also notable for the IMF's future role. The policy accepted by the Board regarding the governance issue is welcomed, but the rights of the member countries should not be impinged upon in any way. Regarding the Fund's transparency policy, the practice of issuing press information notices is also a positive step to make the views of the Fund public. We also support the IMF's New Arrangements to Borrow, as they would put the Fund in a more solvent position in the event of a need to provide supplementary resources.

Let me now brief you about the recent developments in the Turkish economy and Turkey's medium-term outlook. Growth of output was about 7.9 percent last year, while we see a figure of 6.0 percent for the first half of 1997, indicating a slowdown in the economy. The balance of payments figures for the first quarter of the year are in line with our expectations, and the current account deficit, while standing at $4.4 billion at the end of 1996, was $1.3 billion in the first quarter of 1997.

As of the end of August 1997, the inflation rate was about 85 percent a year, which reveals that there has been no success in reducing inflation. The rate of 57 percent, targeted by the previous government, could not be reached for various reasons. As of July 1997, the realized stock value of foreign direct investment stood at $9.663 billion and the committed amount was $21.449 billion.

Looking at other main economic indicators, we observe that, as domestic borrowing doubled during the last year, foreign borrowing increased by $2 billion. The hope of a balanced budget, even for the first half of the year, has vanished. As of the end of July, the budget deficit reached 978 trillion Turkish liras, and it is now estimated that the budget deficit at the end of the year will be about 2.5 quadrillion Turkish liras. A supplemental budget is under preparation.

The new government is fully committed to the principles of market economy and will try to ensure, both domestically and internationally, that state intervention in the markets will stay at a minimum level and will permit free market forces to determine the course of action.

For Turkey, 1998 will be an important year in many respects. The new government's tasks include endeavoring to achieve a reasonable economic growth rate and restraining inflation, while simultaneously implementing the structural reforms for long-term stability.

We are aware that curbing inflation necessitates courageous decisions in order to achieve simultaneous and drastic transformations in many areas. Therefore, concerted and coordinated efforts are needed on the one hand, to effectively reduce the public deficit, which is a main cause of inflation, and, on the other hand, to restructure and reinstitutionalize major government agencies and do away with the negative pressures of inflation. To this end, the treasury and the central bank signed an accord on July 30, 1997, which limits short-term advances extended to the treasury by the central bank, gives freedom to the central bank in setting short-term interest rates, and provides the necessary grounds for the effective application of the monetary program in 1998 by the central bank.

The policy declaration of the new government proposes the acceleration of structural reforms. Emphasis will be placed on privatization and reform of the social security system. In addition, unregistered economic activities will be examined closely and tax losses and evasion will be minimized. Tax rates will be reduced in certain areas, as the tax base will be widened. A tax reform will be initiated that will safeguard against erosion of tax revenue by inflation.

Privatization is a structural transformation for the Turkish economy, and, therefore, speedy privatization is crucial. In this regard, Turkey has had a significant delay in privatization in the past. But legal and institutional arrangements should be implemented in order to protect the consumer and employees. Within this regard, the sale of GSM licenses and power plants has crucial importance.

The treasury announced the domestic borrowing program in the last week of August and received feedback in terms of a reduction in interest rates of 5–5.5 percent. Furthermore, the treasury realized the first reverse auction, in August 1997, to smooth the disbursement schedule. An advisory board, consisting of the members of the Turkish Banks Association, the Association of Money Managers, and the treasury representatives, has been formed.

Transparency and the timely announcement of economic data will be provided. In this respect, we are eager to collaborate with the IMF in the Special Data Dissemination Standard Project.

The structural shortcomings in the financial sector will be eliminated, and a more efficient supervisory mechanism will be established. Efforts to privatize state-owned banks will be accelerated. In this regard, priority will be given to the independence of the central bank and the autonomy of the largest public bank, Ziraat Bank.

In conclusion, let me express my gratitude to the Joint Secretariat for its excellent preparatory work, which has contributed so much to the success of these meetings.

Statement by the Governor of the Bank for Ukraine

Sergiy L. Tigipko

The delegation of Ukraine supports the main new initiatives, which were extensively discussed during the meetings of the Interim and Development Committees. The decisions and outlines adopted will allow the Bretton Woods institutions to carry on their traditional and new functions in the fast changing world with dignity and more effectiveness. We hope that the radical increase of effectiveness, influence and authority for both the IMF and the World Bank will take place in the nearest, and not too distant future. We also hope that our feelings are shared not only by the leaders of the Bretton Woods institutions, but by all delegations, on the active position of which the pace of implementation of these new ideas is dependent.

We feel the importance with which the transition economies were dealt with in these Annual Meetings. Even the most successful of them are now facing the problems resulting from the implementation of the second phase of the radical reforms and integration into the world economic and monetary financial systems. Those problems, in our view, should not only be acknowledged, but should be placed in a focus of constant monitoring and surveillance. The difficult transformation process should be studied not only by academic circles, but also by international financial institutions, which have acquired a unique practical experience. This experience is a global legacy and we think that the greater transparency and openness is needed not only for the international financial system and the system of governance of the member countries, but also for the Bretton Woods institutions themselves. We witness a significant move in this direction in the area of expansion of the presence and the depth of the dialogue in the field, greater flexibility and responsiveness to the needs of the borrowers, and adaptation of the lending instruments in accordance with the current developmental demands. Nonetheless, the public demand for the dissemination of the acquired analyses of successes and failures of the reform on specific groups of countries with similar problems is not completely satisfied. The fuller practical implementation of the IMF and the World Bank's management concept of the new public role probably requires more time.

The transition economies are grateful for the contribution of the international financial institutions for the development and strengthening of their market economy institutions, inter alia, in the financial sector. We would also like to stress the importance of the cooperation with the IMF and the World Bank in the building up of the institutional capacity in the area of civil service. We in Ukraine sometimes experience difficulty in the implementation of our joint initiatives due to the lack of qualified specialists trained in accordance with international standards. As a country that embarked on the road of reforms later than others, Ukraine is now coping with the problems of the second phase of reforms placing emphasis on the structural changes, and consolidation of the achievements of the first phase of stabilization. Inflation will be brought down to 10 percent a year this year compared with 10,000 percent only three years ago. Despite the problems and limitations to our export imposed by our trade partners, the trade balance of Ukraine is constantly improving. Ukraine continues to have one of the lowest levels of tariff protection in the region, and we are removing the final obstacles in the path to broader trade liberalization. The exchange rate has remained nominally stable for almost two years in an environment of expansion of exports and structural improvements. In parallel with the increased money demand, in response to the regained trust in the macroeconomic policies of the state, the banking system has also been consolidated.

Next year we plan to complete a broad tax reform, and speed up the structural reform in parallel with maintaining the exchange rate as a nominal anchor of the financial stability. We continue to work thoroughly on the quality of our budgetary system, reforming the public sector and solving the problem of budgetary arrears' minimization. This will increase the payment discipline in the economy and will enable us to move the structural reforms in the important sectors for the improvement of the investment climate and conditions both for the domestic and foreign investors. Even the first steps in this direction have brought about an increase that only in this year's foreign investments amounted to more than 70 percent compared with the previous one. The transparency and openness of our privatization program is improving. We practically completed the small-scale business privatization. Moreover, 5,000 large-scale enterprises have been privatized. We have embarked on the implementation of the complex of measures on deregulation of entrepreneurial activities, and demonopolization of the key sectors of the economy. This will create an environment conducive to the success of our program to combat corruption and bureaucratic abuse, as well as secure the gradual process of legalization of the still widespread shadow economy. Now after the adoption of the new legislation we will proceed with the regional government reforms.

However, we have not achieved the post-crisis stable economic growth in all sectors of the economy. We are fully aware that this constitutes the main risk for the possible weakening of the public support for the reforms. The living standards of the majority of the population have not significantly improved for several years in a row. This is used by the political opponents of the reform who are interested in slowing or even curtailing some of them. The resumption of growth on a new healthy basis under these conditions becomes a first priority and challenge. It is here that we most feel the support of the international community, primarily the Bretton Woods institutions.

We are now cooperating with the International Monetary Fund in the framework of the temporary Stand-By Arrangement that has strong structural elements. After the enactment of several important laws on the tax and budgetary reform and the improvement of the financial sector we intend to embark next year on the implementation of a large-scale medium-term program supported by the Extended Fund Facility. While implementing it, we expect to stop being a constant net recipient of the IMF financial resources.

Since the last Annual Meetings, we have added to the World Bank portfolio five new loans and two guarantee operations totaling $1.2 billion. We have concentrated our attention on those sectors that would most contribute to the attainment of radical structural changes in the economy of Ukraine, maximum realization of its potential in the energy and agro-industrial sectors, and the expansion of the export capacity of the country.

Our delegation would like to express its deep gratitude to the leadership of the IMF and the World Bank for maintaining an active dialogue with Ukrainian partners in the environment when the reform efforts of the executive branch were not always supported by the legislature. We sometimes faced problematic situations that were skillfully dealt with by the good offices of President Wolfensohn and Managing Director Camdessus and the staff of the Bank and the Fund. We would like to extend assurances of our interest to continue such a constructive dialogue in the future.

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

Gordon Brown

These are the first Annual Meetings that I have attended as Chancellor of the new U.K. government and as U.K. Governor of the Fund. I would like to start by thanking the staffs of the Hong Kong authorities, the World Bank, and the IMF for the excellent organization of these meetings, and I would also like to pass on the thanks of Clare Short, U.K. Governor of the World Bank.

It is particularly appropriate that the world's two major international financial institutions should be meeting here in Hong Kong, one of the world's largest trading economies and leading financial centers in the midst of the fastest growing and most dynamic region of the world—and to be doing so in 1997, which is such an important year for Hong Kong.

The World Economy

The challenge facing us all is to have sustainable growth and employment for the long term, free of instability. We now understand that our shared objectives of high and stable levels of growth and employment—the same bold objectives as those of our predecessors 50 years ago—have to be achieved in a quite different world of highly mobile capital and much greater trade flows. It is a world in which long-term stability in monetary and fiscal policies—low inflation and sound finances—is a precondition for high levels of growth and employment. And it is an international economy where countries will raise investment funds only by pursuing prudent policies that enjoy international credibility.

For some countries, high and unsustainable levels of debt make it very difficult for them to participate in this new global economy. Poverty and unsustainable debts in poor countries affront us all and demand action from the richest countries to take account of the needs of the poorest. I believe it is time to give added impetus to the Initiative for Heavily Indebted Poor Countries (HIPC Initiative) so that all eligible countries that meet the tough conditions will have embarked on the process of debt relief by the new millennium. This proposal is now firmly on the international agenda. I am pleased that we are all committed to seeking further progress in the HIPC Initiative.

As this program of debt relief is implemented, and barriers to trade and capital flows continue to be dismantled, more and more countries will find themselves able to benefit from the growth and jobs that inflows of new investment bring. But as they do so, they will find that it is more important then ever to pursue sound policies that promote stability and growth.

We now live in a world where instability anywhere can rapidly become a threat to stability everywhere. That is why this week we have considered important initiatives to bring greater stability to the international economy. The turbulence in the Southeast Asian economy has brought to our attention this week a truth that applies to us all—that, in addition to the pursuit of prudent policies, nothing is more important for maintaining stability than effective decision making based on openness, transparency, and accountability.

More openness and transparency in decision making will create a flow of information and a consistency in rules and procedures that can help avoid the kind of market turbulence we have seen. It adds to public understanding of difficult economic decisions and deters undue interference by sectional interests—and, at its most extreme, corruption. That is why I am pleased that the IMF will now consider a code of good practice that can promote not just a more effective flow of financial and economic information, but also agreed rules and procedures that promote openness and consistency in economic decision making and reporting.

Opening Up the U.K. Economic Policy

Openness in economic policymaking builds confidence and credibility. But, by bringing government closer to the people, the resulting dialogue and debate helps to build a sense of common economic purpose—something that has been lacking in Britain for decades. That is why a commitment to greater openness in decision making has been at the heart of the reforms that the new British government has introduced over the past four months:

- a new monetary framework that is more transparent, open and accountable; and
- a new and more open fiscal framework with a credible deficit reduction plan.

Monetary Stability

During the past two decades, U.K. governments have adopted and then abandoned a succession of short-lived monetary policy targets—sterling M3, M4, M0, and the ERM. And, far from delivering monetary stability, Britain has suffered the most volatile inflation record of any Group of Seven country in the past 10 years.

I want the British economy to enjoy the far greater underlying strength that comes from a base of high levels of growth and employment alongside low and stable inflation. That is why almost my first act as Chancellor was to establish a wholly new framework for monetary stability in the United Kingdom. Our new framework gives operational independence to the Bank of England for setting interest rates to meet the government's inflation target, while enhancing accountability and ensuring policy is conducted in an open way.

By introducing more rigorous, precise, and open procedures for monitoring inflation performance, including the open letter system, which requires the Bank to write to the Chancellor with an explanation if inflation moves significantly away from its target, I believe we now have one of the most open monetary policies in the world.

Progress has already been made in building our anti-inflation credibility. Long-term interest rates and inflation expectations have fallen.

At the Interim Committee, I announced a further step in the direction of openness in economic policymaking—the decision to publish a quarterly report on our foreign exchange reserves, including our outstanding forward position and a full set of annual accounts. So we are literally opening the books.

Fiscal Stability

As with our approach to monetary policy, so in fiscal policy we have established clear rules, a new discipline, openness, and accountability. We have set tough rules for fiscal policy:

- First, the golden rule—that, on average over the economic cycle, the government will borrow only to invest.
- Second—that, as a proportion of national income, public debt will be held at a prudent and stable level on average over the economic cycle.

Our tough approach to public borrowing, embodied in a five-year deficit reduction plan, is being underpinned by a comprehensive review of the way each government department spends its money. We are also drawing up the first register of all public sector assets in our country, to ensure the British people get the very best out of the nation's assets.

Together, these tough fiscal rules, this deficit reduction plan, and this root and branch review of public spending will ensure a historic break from the "short-termism" and expediency of the past. Our fiscal policy will be all the more credible for being open and accountable.

Immediately upon coming into office, I invited an independent body—the National Audit Office—to review the assumptions and conventions behind our budget arithmetic. They will have a continuing role in future budgets. And in November, I will publish a consultative paper spelling out the state of the economy and progress made towards the government's objectives—to provide the basis of the next budget in the spring. This "green" or provisional budget—another example of openness in economic decision making—is designed to stimulate public debate and build consensus around the way forward for the British economy.

U.K. Economic Prospects

The task everywhere is to secure high and sustainable levels of growth and employment. In particular, I want to move the British economy from decades of stop-go economic instability to a new era of high and stable growth and employment with low inflation. Our challenge, therefore, is to steer a long-term course toward sustainable growth. That will not be easy because we inherited an economy that was not only in danger of overheating but where tackling fundamental long-term challenges—underinvestment, education and skills, and welfare reform—had been neglected for too long. We will never allow a repeat of the boom-bust cycles of the past, in which, every time the British economy expanded, capacity constraints, underinvestment, and skill shortages triggered inflationary pressures.

Already we have made significant progress. We have quickly established our new framework for monetary stability combined, of course, with necessary rises in interest rates to curb inflationary pressures. It is a new system that is generally recognized to be working well.

Second, and I believe just as significant, is the new long-term stability we have determined for the public finances. We published a deficit reduction plan for five years in our July budget, welcomed by the IMF as representing a "significant fiscal tightening." This means, from a public sector borrowing requirement of 7 percent of GDP four years ago, we are now set to achieve a public sector borrowing requirement of 1¼ percent in the current financial year and ½ of 1 percent in the next. There is no room for complacency regarding our public finances. We will maintain strict discipline in public spending, and I have insisted that, across the board, public sector pay settlements must be guided by firmness and fairness.

Third, we have taken measures to tackle long-term underinvestment in both capacity and skills, including a cut in corporation tax to its lowest ever level. But we still have much to do in structural reform to encourage a more dynamic economy through increased competition and through reforms in welfare and employment policy. We are committed to a wholesale modernization of the welfare state, combining new opportunities for the unemployed with new responsibilities.

Of course, I have been concerned that, as a result of both international and domestic forces, our exchange rate has affected the prospects for British industry. But what industry fears most of all is a return to the stop-go instability of the past, and the best prospect for industrial investment is to get the economy back on track to sustainable growth with low inflation.

In past economic cycles, the British economy has swung from overheating to recession, apparently unable to steer a steady course of sustained growth between these extremes. Our challenge is to deliver higher levels of sustainable growth without taking risks with inflation. We will have to be tough in enforcing discipline on spending over the next year, remain vigilant in monetary policymaking, and act speedily to achieve welfare state and employment reform. I will not disguise the problems that we inherited, in particular the strength of consumer demand and the threat of inflation. But with the tough action we have taken to cut the deficit and reform the Bank of England, I am now more optimistic that we are on course to get the economy back on track next year.

Stability in Our Relations in Europe

To gain the confidence of long-term investors required us also to demonstrate stability in our trading relationships. The new U.K. government has also given our categoric commitment to a future in the European

Union—with whom half our trade is done—and we have engaged in a more constructive dialogue with our European partners about the challenges that we all face—including the challenge of creating more jobs. For Britain, it is vital that we have stability in our relations with Europe. Europe is where we are, where we trade, and where we make our living. Sixty percent of our trade and 3.5 million jobs depend upon the single market.

This government has put our relationship with Europe beyond any doubt: Europe is where we are and where we will stay. We are committed to a constructive partnership with our European neighbors. We will play our full part in equipping Europe for the challenges that lie ahead.

This government has begun a debate about EMU in the United Kingdom. And we are helping British businesses to prepare for the practical changes that will be necessary to accommodate a single currency whether or not the United Kingdom joins.

We are also helping Europe face another major challenge—the challenge of creating job opportunities, providing work incentives and improving the skills of our people. It is a tragedy that there are 18 million unemployed people in Europe—half of them have been unemployed for more than one year. Over the past 10 years, 6 million jobs have been created in Europe compared with 46 million in America.

We in Europe must share our experience and expertise in reforming our welfare systems and promoting long-term flexibility and adaptability in our markets, especially our labor markets. And we must tackle obstacles to dynamism. We need a new approach in Europe to promote employability, a workforce that is more skilled and better able to adapt, and a new welfare state where attention is given to the creation of jobs, making work pay, and the skills ladder.

Conclusion—Europe in the Global Economy

Let me end where I began—by emphasizing the importance of our dependence upon each other and the importance of international cooperation to maintain an open economy. At a time when Europe is engaged in important reforms to prepare for monetary union and to reform our markets, it is crucial that we do not become insular but remain open to the world and outward looking. This is a further reason that it is good for me and my European colleagues to be meeting this year in Hong Kong.

I believe I speak for all the European Finance Ministers here today when I say that Europe is firmly committed to open trade and greater international cooperation. This internationalism, which the IMF and World Bank represent, is a force for good that we are determined to uphold and that we believe, working together, we can enhance. For, at these meetings we have discussed together tasks and challenges that will not be properly resolved if we do not all address them together.

Regional concerns must never replace international commitments. Urgent reforms close to home must not breed insularity. For I believe that the agenda of structural economic reform upon which Europe is embarked represents not a retreat from the world, but a means by which we play a fuller part in it.

Statement by the Governor of the Bank and the Fund for the United States

Robert E. Rubin

Good afternoon. It is a pleasure to be representing a second Clinton administration at the Annual Meetings of the IMF and World Bank. It seems particularly fitting that they are being held in Hong Kong, a city that has become such a strong symbol of the dynamism and openness that has transformed Asia these past three decades.

Barely a generation ago, the people of Hong Kong were among the poor of the world; today, their real per capita income is among the world's highest. As in so many parts of Asia, this spectacular growth was built on a commitment to hard work, sound policies, open markets, the free flow of information, and the rule of law. The presence of the entire international financial community here this week speaks to the importance of Hong Kong sustaining that commitment in the years to come.

There is now a broad-based international consensus that the strong free market fundamentals and sound governance that spurred prosperity in Hong Kong hold the key to sustained growth in every country. And there has been remarkable progress in many, many countries in recent years. However, there are still far too many people who live in poverty. They should be the focus of our attention as we go forward.

The World Bank recently forecast that the world economy would grow by nearly 3½ percent a year during the next 10 years—the fastest pace since the 1970s oil shock. But, as recent events in Southeast Asia have reminded us, there is little room for complacency—in any country, very much including our own. We all face important challenges if we are to build on recent progress: challenges to make the policy changes needed for strong and steady growth, to strengthen international financial markets, and to tackle poor governance and corruption, which still thwart development in many countries. Let me just say a few words about each of these.

To promote strong and durable growth, governments need to do more than just endorse the sound policies I mentioned a few moments ago—

they must follow them. As we in the United States learned the hard way, this often means difficult steps to cut public borrowing, and tackle inflation. And it means—to this day, in our case—actively resisting those who would have us put up new barriers between ourselves and the world outside, rather than opening our own and others' markets to spur faster growth.

Difficult as these policies are, the evidence strongly suggests they are the right ones. Our own country has enjoyed low inflation, steady growth and rising employment these past five years, by following what was basically a difficult but, we believe, sound policy path. We still, however, have many challenges to meet, such as upgrading our education system, reviving our inner cities, and maintaining fiscal discipline.

We have also seen enormous progress in many emerging economies in recent years, much of it fueled by closer international integration. Closer links to international markets have brought a dramatic increase in developing country trade. Increased financial market integration has also played a critical part in this increased prosperity, by providing increased investment and investment funds. And in Hong Kong the international community has reasserted its commitment to see that part of integration proceed further.

Substantial steps have been taken at the meeting in Hong Kong toward making capital market liberalization a basic purpose of the IMF and to extend the Fund's jurisdiction to include capital movements. As we all recognize, liberalization of the capital account must proceed carefully alongside the development of strong policies and financial system regulatory regimes—but proceed it must if the global economy is to realize its true potential for growth. We believe the same end will be advanced by opening financial systems to foreign participation, and all the capital and expertise that that implies. I do not think there is any question that there was an almost unified view, at the many meetings I have had here in Hong Kong with developed and developing nations, that we must not allow the turbulence that can occur in the wake of crises divert us from the crucial goal of closer financial integration. Rather, we must implement national policies and work with our international institutions to let us realize the opportunities that global financial markets provide—and to manage the risks, both through prevention and, when necessary, response. Let me also say, at this point, that we in the United States are deeply committed to the economic well-being and financial stability of the nations of Southeast Asia, and we look forward to working with these nations and the IMF to achieve those purposes.

A commitment to sound macroeconomic policies on the part of all governments is the global economy's best safeguard against financial crises of the kind that have reverberated around Southeast Asian markets in recent months. But important though these policies are, they are not sufficient. Particularly among the emerging economies, though for all of us, there is an urgent need to strengthen the legal and supervisory infrastructure underpinning the financial market—to promote growth and preserve stability.

Development of a sound financial system is a difficult task. It takes sustained efforts, on many fronts. Once again, success in this area will depend ultimately on national authorities having the will to take the steps necessary to develop healthy and efficient financial systems. But the international community can also help. And here in Hong Kong it has moved to support those efforts.

First, we have moved to give markets and supervisory authorities greater capacity to spot problems at an early stage and provide forewarning of crises. Financial markets, perhaps even more than any other kind, are critically dependent on the free flow of comprehensive, timely, and accurate information. When investors are well informed, their actions will reinforce good policies and encourage timely adjustment of policies as the need for such adjustments arises. Failing to disclose information in a timely manner does not lessen the chance of problems occurring. Sooner or later, adverse conditions will make themselves known anyway—deferring disclosure simply allows problems to build up and become more severe, as well as damaging credibility. Here in Hong Kong the United States has sought to build on recent IMF moves to increase transparency, by expanding the coverage of its new Special Data Dissemination Standard.

Second, the international community has strengthened the IMF's ability to help countries meet the challenges of a global financial market—not merely through the Fund's surveillance and policy advice, but through its financial support for strong policy adjustment efforts when crises occur. I am particularly pleased that we have reached agreement on increasing the Fund's resources, which will enable it to provide exceptional support as warranted. I welcome, too, the heightened awareness at the World Bank of the role it can play in financial sector reform programs.

Finally, I would like to recognize and applaud the efforts of Jim Wolfensohn and Michel Camdessus to act on their commitment to making good governance—and the fight against corruption—a central priority of the World Bank and IMF. Their candor and initiative have generated a long overdue debate about these issues—and with it a recognition that the costs of corruption often fall disproportionately on the poorest and most vulnerable.

Both institutions are working to make reduced corruption just as integral to their assessment of countries as more traditional concerns such as tariff reform, investment liberalization, and the like. But responsibility here does not just lie with developing countries. Developed countries also have an obligation to combat the supply side of equation. I welcome the important steps to tackle corruption that the Organization for Economic Cooperation and Development has been taking—and strongly urge all of the member countries to make good on their recent commitments in the months ahead.

Let me stress one point: putting the fight against corruption right at the heart of our efforts to promote development is not only a moral necessity. It is an economic one. Corruption results in distorted allocation of resources. And new laws and supervisory systems to safeguard stability must be accompanied by credible—and honest—authority to enforce them. But there is also a broader point. This year's *World Development Report* provided an important reminder that the new global emphasis on freeing markets has not lessened the need for a strong and effective state—quite the reverse. Each country's capacity to take on the major challenges I have mentioned today will rely critically on the credibility of its policymakers and public institutions. And corruption undermines that credibility.

In the end, good governance, including the rule of law, will be absolutely essential for realizing the benefits of this new global economy, and managing the risks. More generally, if we work together—at meetings such as this one—and individually, to develop and implement the sound policies needed for growth, and to build the strong institutions needed to safeguard stability, I believe we have the opportunity to achieve widespread sustained growth and prosperity in the years ahead, and real progress for the far too many who still live in poverty.

Statement by the Governor of the Fund for Vietnam

Le Duc Thuy

First, allow me, on behalf of the Vietnamese delegation, to extend our warmest greetings and best wishes to the Chairman, the IMF Managing Director, the President of the World Bank, the distinguished Governors, and all other participants present here today. I would like to take this forum to express Vietnam's high appreciation for the efforts of Mr. Camdessus and Mr. Wolfensohn in promoting the activities of these two institutions.

I would like to share my view with other Governors in commenting that world economic growth has continued at a satisfactory pace, supported in particular by buoyant growth in some industrial countries and in many emerging market countries. Another positive factor is the generally low inflation rate, which is likely to continue to be subdued. This trend and tight fiscal policy will help maintain the interest rate at low levels. It is interesting to note that capital flows to emerging market countries, especially private capital, have been generally well sustained at a high rate. Some of the poorest countries in Africa have achieved progressive economic growth thanks to strong structural adjustment efforts. Meanwhile, an event drawing much attention recently is the currency turmoil in some Southeast Asian economies, which have grown rapidly for many years. This event highlights the need to strengthen policy consultation and economic and financial cooperation in the region. Furthermore, economic and financial developments during the past few years may call for the review of some policies, facilities, and other cooperation arrangements between the Fund and the Bank and member countries as well as those among member countries themselves.

Since the normalization of their relations with Vietnam in October 1993, the Fund and the Bank have continued to provide vigorous support and assistance to Vietnam in terms of policy advice, financing medium-term economic programs, infrastructure, and socioeconomic projects and providing a range of technical assistance. This support has played an important role in helping Vietnam maintain high economic growth and control inflation in the past years. With the assistance of the IMF, Vietnam has successfully implemented the first and the second annual arrangements under the Enhanced Structural Adjustment Facility. About $360 million has been disbursed from this program. The World Bank also continues to provide Vietnam with strong support in fiscal year 1997. Until now, the Bank has approved 13 loans for projects and a structural adjustment credit for Vietnam, with total commitment of almost $1.6 billion.

In pursuing our economic reform policy, during the past year we have significantly improved the legal framework for a market-oriented economy by promulgating key legislation, which will form a basis for the sound and efficient development of the banking and financial sector in Vietnam. For the time being, the Vietnamese government will concentrate its efforts on formulating and implementing key structural reforms, creating a new impetus for further economic development. The structural reforms are focusing on three main sectors: financial, trade, and state-owned enterprises.

Vietnam's economic developments in 1997 have been favorable. The projected real GDP growth rate is over 9 percent, inflation will be contained at 5–6 percent. Export growth for the first half of the year was 27 percent, and the net increase in international reserves surpassed the target. Monetary policy continues to be carried out in a cautious manner. Inflation remains low, and the exchange rate is being adjusted flexibly and is becoming more market based. At the same time, Vietnam is accelerating its economic integration into the world economy. In addition to existing commitments under the Asian Free Trade Agreement, application for membership in the Asia Pacific Economic Cooperation and the World Trade Organization, as well as efforts to finalize a bilateral trade agreement with the United States, shows Vietnam's determination to build an open and internationally competitive economy. Recent developments in the region enhance Vietnam's awareness of the importance of accelerating the reform process, thus improving efficiency in our use of resources, raising domestic savings and investment rates, and reducing our vulnerability to external shocks.

Though still facing major challenges, we are confident that with the efforts of the entire nation in combination with the valuable support of friends throughout the world, including two large international financial institutions—the IMF and the World Bank—Vietnam will succeed in achieving the goals of industrializing and modernizing the country.