PRESENTATION OF THE FIFTY-THIRD ANNUAL REPORT

BY THE CHAIRMAN OF THE EXECUTIVE BOARD AND MANAGING DIRECTOR OF THE INTERNATIONAL MONETARY FUND[1]

Michel Camdessus

Mr. Chairman, Governors, ladies and gentlemen, let me extend a warm welcome to you all, particularly the Governor for the Republic of Palau, our 182nd member, and, among the observers, to Wim Duisenberg in his new capacity as President of the European Central Bank. Wim, in welcoming you, allow me to salute on behalf of the Fund, the extraordinary achievement of Europe in availing itself of a single currency, after many years of patient work and steady convergence. I wish also to express our deep gratitude to President Clinton and President Menem for their presence with us today, for the encouragement that they have given us, and for the inspiration that we can draw from their remarks.

Governors, you have come this year in the midst of a crisis—a crisis that has already cost hundreds of billions of dollars, millions of jobs, and the unquantifiable tragedy of lost opportunities and lost hope for so many people, particularly among the poorest. This is a time then, for hard thinking, for recognizing errors, and for bold steps. So let us try together to find answers to four basic questions:

- Where do we stand?
- What has gone wrong?
- What should be the basis of a new financial architecture?
- How can we travel from today's crisis to a more secure, stronger international monetary system?

Where Do We Stand?

The Fund's most recent assessment is that, in the absence of any further major shocks, world output will expand by about 2 percent in 1998, just one half of what we projected a year ago. What has changed? Two key factors have aggravated the crisis that first emerged in Southeast Asia: One, a crisis at the heart of the crisis—the recession and financial system

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distress in Japan—intensified. Two, the abrupt deepening of crisis in Russia triggered a new wave of instability throughout the world. No country has been immune. Contagion has spread through the emerging markets, especially Latin America, and financial markets in Europe and North America have turned down. Finally, this turmoil has traveled full circle, creeping back into Asia to make its prospects for an early recovery more uncertain.

This virulent contagion was felt most keenly in those countries with weak policies and inadequate institutions, but even countries with well-managed economies have not been spared. We did not anticipate the strength of this virus, which has struck far and wide, for instance, attacking Latin America because Russia ran into trouble. What a powerful demonstration this has been of the real vulnerability of emerging markets to abrupt changes in confidence, and the risks that arise when relatively small economies become the recipients of very large short-term flows!

Now, in the aftermath of this second shock of the crisis, most developing countries face a sharply weaker environment, greatly diminished capital inflows, and declining commodity prices: in Africa, where many successful adjustment programs were producing positive per capita growth for the fifth year in succession; in Latin America, where many countries had greatly strengthened their macroeconomic and structural policies; and among the economies in transition, many of which, after years of painful structural transformation, were preparing themselves for another year of significant growth. All of these, and others in the Middle East and the rest of Asia, now face difficult challenges.

It would be perhaps too dramatic yet to talk of global recession, but the evidence of the risks calls for immediate action. Fortunately, in the industrial countries of North America and Europe the fundamentals remain sound. For some time, inflation has been subdued. Economic expansion continues in the United States, while in the economies of the euro area the recovery has continued to firm. But even North America and Europe are not immune, and effects of the crisis are beginning to be felt. It was therefore most appropriate that representatives of the industrial economies recently recognized the shift in the balance of risks from inflation to a slowdown in demand. Their pro-growth stance, together with prospects for a gradual turnaround of the Asian countries in crisis, if they continue strong policies, lead us to anticipate a modest upturn in world growth in 1999, from 2 percent to, say, 2½ percent. But there are still many downside risks.

If we expect any upturn next year, it will be because of the impressive steps by many countries, some of which were already implementing Fund-supported programs, to shield themselves against contagion. An example at the onset of the crisis was the Philippines, which was able to absorb the worst of the successive waves of contagion by prolonging and rapidly strengthening an existing successful Fund-supported program. The reaction of Latin American countries, so admirably illustrated by the remarks of President Menem, is also to be lauded. By jointly strengthening their defenses, they have invited the markets to take greater account of the striking progress accomplished over the past decade and in particular since the Mexican crisis. They have created the conditions for the Fund to negotiate promptly its financial support, if necessary.

All of this means that we are not in 1928. Recession on a global scale can be avoided. If we keep a steady nerve, if all countries pursue stability, structural adjustment, and orderly liberalization of their economies, this crisis can be overcome. Countries at the heart of the turmoil can emerge stronger and better prepared for the challenges of the next decade. But for this to happen and for us to respond properly, we must understand clearly what went wrong.

What Has Gone Wrong?

Let us be clear: we are speaking not just of countries in crisis, but of a system in crisis, a system not yet sufficiently adapted to the opportunities and risks of globalization.

Let us turn to countries and first to Russia, the most recent crisis. What did go wrong in Russia? Not the country's overall strategy for reform. Under this strategy, which was supported by the international community for over seven years, a fundamental transformation had begun in the economy, the society, and the political system. The economy had been opened and decidedly oriented toward the market, and inflation had been tamed. An upturn in economic output had finally started in 1997, and the prospects for further growth were fair, if only reform efforts could be maintained.

But an appropriate strategy was not enough. In spite of the government's good intentions, too much was left undone, and support for reform was insufficient. In early 1998 the situation turned for the worse. Russia suffered a major terms of trade shock mainly from falling energy prices. This compounded the prevailing structural and macroeconomic weaknesses—a severe fiscal imbalance, pervasive problems of corporate and public governance, growing financial sector fragility, and deficiencies in market institutions. Abruptly, this summer, the markets delivered their harsh verdict. Now in our dialogue with the new government, we see that Russia will need to reestablish a sound path to recovery and to restore confidence greatly weakened by its unilateral debt restructuring. If Russia can begin again to help itself, and do so convincingly, assembling broad support for reform, the Fund will, of course, stand ready to help.

But earlier, in Asia, what went wrong after decades of remarkable performance? As in Russia, the crises were three-dimensional. The first dimension involved macroeconomic imbalances, reflected in short-term capital outflows. A second took the form of acute financial sector problems reflecting the absence of robust banking institutions and practices. And the third was embedded in the economic culture, allowing unduly close links among the state, the banks, and the corporate sector. This approach of "managed development" was simply out of tune with the demands of a globalized economy.

To the three-dimensional problem we had to consider a triple response. In the first and second dimensions—the macroeconomy and the financial sector—we were on more or less familiar ground. In the third, together with other agencies, we faced newer challenges: lack of transparency, misgovernance, and corruption. Nonetheless, reforms are now being implemented—some are having immediate positive effect; others addressing deep-rooted problems will need more time to take hold.

In brief, to an unprecedented crisis, we had to bring unprecedented responses, and at times to enter stormy, uncharted waters. These were comprehensive programs put together in emergency situations. When needed they have been adapted. And they are working.

Consider what has been achieved. On a narrow definition of stabilization, the task is well advanced. In Korea and Thailand, and even in Indonesia, exchange rates and interest rates have stabilized and are moving toward more appropriate levels. Inflation is in check. External positions have strengthened remarkably, as current accounts have swung from deficit to large surplus. And Governors, we should all commend your colleagues from the countries in crisis who had the vision and courage to achieve that. But we know only too well about the sharp loss of output and heavy social costs that have accompanied these gains. Capital accounts have yet to turn around convincingly. So even if some necessary conditions for renewed growth have been fulfilled, the task is far from complete.

These countries need to press ahead resolutely with their full adjustment and reform programs, making sure that the poorest will benefit. The social costs have been high, too high, even if in Asia, as elsewhere, we have encouraged the authorities to make room for adequate social expenditure, relaxing fiscal targets as needed. And let me tell you that we applaud the initiative, spearheaded by the World Bank, to sharply increase the funding for social safety nets in countries undertaking painful reform.

Overall, these programs are beginning to work, but they will not suffice. For these countries, for any country, to enter the new century with sounder long-term prospects than before, more is needed. The world community must undertake a cooperative effort to repair the major shortcomings in the global system that this crisis has brought to light, such as:

- the weak culture of transparency throughout the world—public sector and private sector, at national and at international levels—that severely hampers sound policy, stable markets, and the efficiency of our surveillance;

- the weakness of financial systems;
- a piecemeal opening of capital accounts that involved a largely unrestricted easing of potentially volatile, short-term flows while nondebt inflows were submitted to legislative or bureaucratic restrictions, exactly the opposite of what should have happened;
- hesitation in defining modalities for involving private institutions in preventing and resolving crisis; and
- lastly, while sophisticated global forms of financial intermediation were developing rapidly, we were slow in establishing practices and regulations at the level of world markets based on experience and on credible institutions to enforce them.

If we wish—as we must—to achieve sustainable high-quality growth and stability, we need a global trade and financial system that is open and well regulated, that ensures access to the information necessary to differentiate risks, and that can count on the international community to undertake firm surveillance ensuring the credibility and predictability of countries' policies. This means that we must correct the five shortcomings I have just listed. In short, to extend the enormous progress of the last 50 years into the next half century, we need a new architecture for the international monetary system.

What Should Be the Key Features of a New Financial Architecture?

This new architecture must rest on five underlying principles: transparency, soundness of financial systems, involvement of the private sector, orderly liberalization of capital flows, and modernization of international markets harnessed to standards of best practices and means for enforcing them. I do not need to elaborate on many of these principles as the Interim Committee communiqué has done that well.

- *Transparency*. This is the golden rule. High-quality information and analysis are essential for sound policy formulation and for participation in the markets: there is a task for all. The Fund's new data dissemination standards are already in place—an essential first step—and we are working to strengthen and broaden our surveillance. Governments' policymaking will be enhanced by adopting the new code of good practice in fiscal transparency and the code for transparency in monetary and financial policies that is being prepared. Market participants must also expect to offer greater transparency—including through additional regulatory and disclosure requirements—to ensure better functioning markets. Ultimately, the effectiveness of this reform will hinge on how ready members and market participants are to adopt the standards for transparency and how well the Fund uses them in surveillance.

- *Strengthened banking and financial systems*. This is a keystone. You have been very clear about the objective, no matter how complex it will be in execution. Strong frameworks for regulation and supervision must be put in place, supported by the worldwide adoption of consistent standards for accounting, auditing, insurance, securities, payment systems, and banking supervision. The Fund is strengthening its capability in this area by refocusing its bilateral and multilateral surveillance as well as its technical assistance and training. Together with the World Bank, other international organizations, and national agencies, it will be essential for us to move forward rapidly with disseminating and applying principles and good practices in the context of a framework for financial stability.
- *Involvement of the private sector*. This is essential as it is the primary source of finance for many countries. You have made it clear that as a minimum, the private sector should be involved, in a voluntary and cooperative fashion, in forestalling and resolving financial crises. Looking to the future, and drawing valuable lessons from the experience in providing relief in the Asian crisis countries, two objectives come to mind: first, to establish the proper incentives to foster sustained private sector participation in global capital markets, minimizing the risk of sudden withdrawals; and second, in realizing it, to avoid moral hazard. We must work more on these issues, and the private sector's participation in this process will be essential.
- *Liberalization*. The crisis has revived here or there the temptation to revert to outmoded patterns of controls. But on that you have avoided a theological dispute. Your response has been a continued commitment to free trade and payment systems and a clear invitation to press ahead with the mandate you gave us in Hong Kong. The aim should be to progress cautiously and in an orderly fashion on our path toward a liberal system of capital movements set in the context of properly sequenced financial reform and of strong macroeconomic balances. At the same time, we urge the remaining 40 members who have not yet accepted the obligations of Article VIII to do so expeditiously.
- *Modernizing the international markets by harnessing them with international standards of best practices*. The objective is straightforward and worth repeating: to establish for all international fi-

nancial operations the same types of practices and discipline that have been established progressively and prevail today in the best working financial centers. For that we need consistent world standards not only in the monetary and financial areas of core concern to the Fund, but also in accounting, auditing, bankruptcy, and corporate governance, which are the concern of other agencies. Of course it will not be enough simply to disseminate standards. Compliance by all sectors will be required: the actual practices of public and private sector entities will need to be changed; the public sector may have a role in strengthening incentives to adopt and comply with standards; and the Fund's surveillance will need to be modified to assure the world that the changes are being well implemented.

Will this be enough? Some may say that these proposals are not bold enough, that standards and codes of good practice rest too much on consensus, mutual trust, and an exceptionally high sense of responsibility of all actors. They may argue for the imposition of global rules or taxation, but I do not see a consensus materializing on such a basis. Instead I suggest that our five elements provide the basis for a broad agreement to be assembled in a spirit of subsidiarity; acting at world level is appropriate only when action at the national or regional level cannot suffice. This means, of course, in the light of recent developments, that national regulators must adopt all appropriate measures to reinforce their financial systems, not the least addressing decisively the serious problem created by the lack of transparency and poor monitoring of hedge funds and of transactions in many offshore centers.

I am convinced that, taken together, and cemented by your shared sense of commitment, these five elements can be constructed into the sound, stable system that we all desire. But, new challenges, even new crises, will emerge. To face them, we need to move to a higher level of international cooperation particularly now as we face simultaneously the difficult tasks of renovating the system while managing crisis. This brings us to the single most important task that now confronts us—that of charting the path out of the crisis.

The Path Out of Crisis

Yes, the tasks we confront are complex, but it is essential that we make an immediate start. Even so, we can only expect gradual results, probably over a period of years. So then, for the period immediately ahead, what could be the elements of a new consensus on how to progress from the present situation to a sounder world economy based on the new architecture? Everyone has a role.

First, for the more robust economies: at present, the industrial countries clearly have a role as engines of global growth. The recent commitment by the Group of Seven finance ministers and governors to preserving or creating conditions for sustainable domestic growth and financial stability was a welcome signal, but action and continued vigilance will be needed. Action is particularly urgent in Japan. As the second largest industrial economy, Japan plays a pivotal role in the world economy, especially in Asia. But at present, its economy is racked with financial and corporate sector problems. Decisive moves by the authorities to promptly and resolutely repair the financial system, while pushing the agenda for deregulation, openness, and structural reform and, simultaneously, continuing fiscal stimulus until the recovery is self-sustaining, will deserve the highest international encouragement and praise.

Second, the international community must provide effective support to the countries rebuilding themselves, provided they continue implementing the agreed programs with utmost determination. Each constituency must seriously consider whether there is not something more to be done to assure their success:

- bankers and other private creditors, by speeding up private or public sector debt restructuring and, where needed, debt reduction; and by maintaining credit lines and commercial credit arrangements; and
- official bilateral creditors and donors, by extending support, where needed, particularly when pledged under second-line-of-defense arrangements or, more generally, by recognizing that bilateral support is vital for the Fund to be able to play its catalytic role; let me tell you that I particularly welcome here the initiative announced by Japan in favor of Asian countries, and the readiness expressed by Spain, with the support of others in the European Union, to assist in the financing of Fund-supported programs in Latin America.

Third, countries fighting contagion above all should resist the temptation to undertake unilateral debt action, to adopt protectionist measures, or to force economic expansion by inflationary financing. Instead, they need to develop their capacity to anticipate difficulties and to respond quickly. They should persevere with programs based on sound money, budget discipline, structural adjustment, strengthening of financial systems, transparency, and promotion of good corporate and public sector governance.

Such countries must be able to count on support from the Fund and the international community, as already is the case with some 75 countries that have Fund-supported programs, or are negotiating them at present. A remark here in passing: 75 countries in such programs! How much this tells us about crises avoided and growth preserved. Yet, the task of a number of them is so hard that the Fund may be called upon to broaden its present support to them. In saying that, I have particularly in mind countries in Africa, in the Caucasus or Central Asia, and in Latin America. We will not shy away from our responsibility and, if needed, take new initiatives to this end.

This leads us to the fourth task: financing the IMF itself. More authoritative voices than mine have made this point. In a world of rapid change, in a world where sudden market developments can destabilize even well-performing economies, the Fund needs adequate financing to perform its mandate fully.

Several items now need action as soon as possible: the quota increase is most urgent and should be finalized as soon as possible, together with the New Arrangements to Borrow, and the ratification of the SDR allocation you approved last year.

I must also reiterate the need for the Fund to receive, without further delay, sufficient resources to replenish the ESAF. It is the sine qua non for our contribution to the HIPC Initiative, to post-conflict situations, and to adjustment and reform programs in the poorest countries—particularly in Africa—to be commensurate with the task. Governors, I say that with special emphasis, as we must make the maintenance and, I would suggest, the strengthening of our efforts in these poor countries an integral part of our new consensus.

And fifth, in this search for a consensus on a path out of the crisis, our institutions must be adapted to this new world. This applies to the IMF itself. It has been said that you should not reform the fire brigade while fire is raging. Well, I believe that at least we must start. In fact, I would say that it is a most valuable part of the culture of the Fund to be able to pursue internal reform even while continuing with our emergency work in all parts of the world. Of course, we will pursue our efforts continuously to improve our role in preventing and managing crises. We shall explore means to strengthen our capacity to provide support more efficiently—including in a precautionary way—to countries pursuing sound policies that face difficult global financial conditions. But we must go several steps further.

Let me tell you what I see as feasible now to make the Fund more attuned to this new world. You all agree, I think, that the Fund must be no exception in observing the golden rule of transparency. Let us, then, make further progress in opening many more of our operations for publication and for external evaluation. Already evaluation of the ESAF is complete, and surveillance, our central activity, is being reviewed. But a key remaining issue in attaining greater transparency lies, as you know, in the degree of confidentiality required for maintaining a totally open dialogue with each of you. As soon as a consensus about these limits is reached among yourselves, we will be ready to publish documents you still ask us to keep confidential. Let us work together in reconciling these two requirements.

Our legal instruments also need to be reappraised. I see two areas where the question of amending the Articles of Agreement arises. One is an amendment to make orderly capital account liberalization one of the purposes of the Fund and to extend the Fund's jurisdiction, as needed. On that we have already started our work. But the question of another amendment is raised by a more specific aspect of the architecture—still a controversial one: the need to facilitate the orderly restructuring of distressed debt. I welcome the Executive Board's decision to come back to this issue.

We must pay close attention also to the frequently raised issue of political accountability. Whenever Fund-supported programs have an impact that goes beyond the strictly economic sphere, the legitimacy of our actions as a technical institution is questioned. But the issues go beyond accountability to the need for the authority to discharge adequately the responsibilities you entrust to us. Therefore, I wish to reiterate here my full support for the French suggestion to consider now transforming the Interim Committee into a "Council" with decision-making, rather than consultative, powers. This transformation, long anticipated in Article XII, Section I of the Articles of Agreement, could crown our efforts to establish a credible new architecture, by creating a body whose members are collectively responsible for key developments in the international monetary and financial system. It would significantly contribute to the new dimension of cooperation which is needed, by providing your representatives to the Council with a central forum from which to speak with full legitimacy, with full authority, and with a single voice.

Lastly, two major developments suggest the need to revisit the modalities of the Fund's multilateral surveillance. The first, unveiled by the Asian crisis, is the extent of destabilizing movements in exchange markets. The second, as the euro develops into a key international currency, is the potential for cooperation among the monetary authorities of the multipolar system that is likely to develop in the years ahead. No doubt a new international monetary equilibrium is emerging, the surveillance of which will be a core task for which the Fund must prepare itself.

Mr. Chairman, Governors, I have had to touch this morning on issues of paramount importance for the future of the world economy and to tell you that I am confident that— narrow as it may be—there is a way out of the crisis. You can count on the Fund and on its competent and valiant staff to be steadfast in implementing your fundamental objectives of sound money, high-quality growth, protection of the poorest, and human development. You can count on the Fund to be prompt in adapting itself and ambitious for reforming itself. You can count on the Fund to stand by all its members in whatever difficult situation they may be.

But, Governors, the Fund can only help those of its members who strive to save themselves. And we cannot do that alone. Working together with the World Bank and the regional development banks, we also need your support. We need you as our partners, as our shareholders, as those with whom the final decisions, the final responsibilities, lie.

Let us join forces in completing the work we have just reviewed. With your support, under your guidance, the Fund you have placed at the center of the financial system will proudly continue to play its part of service.

OPENING ADDRESS BY THE PRESIDENT OF THE WORLD BANK GROUP[1]

James D. Wolfensohn

The Other Crisis

This is the fourth time I stand before you as President of the World Bank Group. At the outset I would like to express my appreciation to our Chairman, Wolfgang Ruttenstorfer, and to my colleague and friend, Michel Camdessus for the partnership that we have enjoyed during the past year. I would also like to pay tribute to the work that the Fund has done in a year that has been characterized by great turmoil and acknowledge the contribution that Michel and his colleagues have made dealing with very difficult problems at a very difficult time. We all recognize that we meet under the shadow of a global crisis. We come here in a united endeavor to protect the common welfare, to listen to ideas from all quarters, to reach out to friends and critics alike to find new solutions. We must embrace the bold.

Mr. Chairman, I stand before you today under very different circumstances from last year. Twelve months ago, we were reporting global output that grew by 5.6 percent—the highest rate in 20 years. Twelve months ago, East Asia was stumbling, but no one was predicting the degree of the fall. Twelve months ago, South Asia, home to 35 percent of the world's poor, was still nuclear test free and seemed set to enjoy future years of 6 percent growth, perhaps more. Twelve months ago, developing countries as a whole were on a path toward strong growth over the next decade. Twelve months ago there was optimism about Russia with its strong reformist team.

And then came a year of turmoil and travail: East Asia, where estimates suggest that more than 20 million people fell back into poverty last year, and where, at best, growth is likely to be halting and hesitant for several years to come; Russia, beset by economic and political crisis—caught between two worlds, two systems, comfortable with neither; Japan, the world's second largest economy, so crucial to East Asian recovery, with a government committed to economic reform, and yet still in recession, with a profound impact not just in Asia but around the world; nuclear tests in India and Pakistan; war threatened in Eritrea and Ethiopia; and terrorist bombs in Kenya and Tanzania. And all this compounded by the impact of

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El Niño—the worst in history—with its full devastating force falling most heavily on the poor: in Bangladesh, floods that kept two-thirds of the nation under water for more than two months, setting back many of the recent social and economic gains; and in China, flooding of the Yangtze River region with an estimated 3,500 deaths, 5 million homes destroyed, and 200 million lives dislocated.

I have spoken in the past about images of hope—of people from the slums of Brazil to the rural villages of Uganda, from the Loess plateau in China to the hundreds of thousands of women who are finding their dignity through microcredit. People empowered to take charge of their destinies. But today I have other memories. Dark, searing images of desperation, hopelessness, and decline—of people who once had hope, but have it no more: the mother in Mindanao, pulling her child out of school, haunted by the fear that he will never return; the family in Korea, with a midsize scrap metal business, made destitute through lack of credit; the father in Jakarta, paying a moneylender three times in interest what he can make that day, falling deeper and deeper into debt—not knowing how he will ever work himself free; and the child in Bangkok, now condemned to work the streets, a child no longer. Today, while we talk of financial crisis, 17 million Indonesians have fallen back into poverty, and across the region a million children will now not return to school.

Today while we talk of financial crisis, an estimated 40 percent of the Russian population now lives in poverty. Today while we talk of financial crisis—across the world, 1.3 billion people live on less than $1 a day; 3 billion live on less than $2 a day; 1.3 billion have no access to clean water; 3 billion have no access to sanitation; 2 billion have no access to power. We talk of financial crisis while in Jakarta, in Moscow, in sub-Saharan Africa, in the slums of India, and the barrios of Latin America, the human pain of poverty is all around us.

Mr. Chairman, we must address this human pain. We must go beyond financial stabilization. We must address the issues of long-term equitable growth on which prosperity and human progress depend. We must focus on the institutional and structural changes needed for recovery and sustainable development. We must focus on the social issues. We must do all this, because if we do not have the capacity to deal with social emergencies, if we do not have longer-term plans for solid institutions, if we do not have greater equity and social justice, there will be no political stability—and without political stability, no amount of money put together in financial packages will give us financial stability.

And so in response to the current crisis, we at the Bank have been focusing on putting in place the short- and long-term measures for sustained recovery. Working with governments on financial, judicial, and regulatory reform, on bankruptcy laws, anticorruption programs, and corporate governance—so essential to the restoration of private sector confidence. Before the crisis hit, we had already worked on financial sector reform in 68 countries. At the request of our shareholders, we have now expanded that capacity by one-third, and we are reinforcing our leadership in corporate governance.

On the social side, we have been restructuring our existing portfolios to ensure a sharp focus on priority programs that can reach poor communities quickly: working to keep children in school, for example, in Indonesia, where we support a program to provide scholarships for 2½ million children; creating jobs, for example, in Thailand, through a new social fund; putting in place frameworks for social protection, for example, in Korea, through a series of structural adjustment loans. Throughout the region, we have been trying to maintain food supplies, trying to make sure vital medicines reach the sick, trying to ensure that health and education programs continue, and that the environment does not suffer—trying to put people first.

We have learned that, while the establishment of appropriate macroeconomic plans with effective fiscal and monetary policies are essential in every respect, financial plans alone are not sufficient. We have learned that when we ask governments to take the painful steps to put their economies in order, we can create enormous tension. It is people not governments that feel pain. When we redress budget imbalances, we must recognize that programs to keep children in school may be lost, that programs to ensure health care for the poorest may be lost, that small and medium enterprises, which provide income to their owners and employment to many, may be starved of credit and fail. We have learned that there is a need for balance. We must consider the financial, the institutional, and the social, together. We must learn to have a debate where mathematics will not dominate humanity, where the need for often drastic change can be balanced with protecting the interests of the poor. Only then will we arrive at solutions that are sustainable. Only then will we bring the international financial community and local citizens with us.

There has been much talk leading up to and within these meetings of a new global financial architecture. That talk reflects a growing sentiment that there is something wrong with a system in which even countries that have pursued strong economic policies over a period of years are battered by international financial markets, where workers within those countries will be thrown out of work, where their children's education will be interrupted, their hopes and dreams destroyed. I believe that in the more than half-century that has elapsed since the creation of the new economic architecture in the aftermath of World War II, our international economic institutions have served us well. No, they have not solved all our problems. But we are far better off with them than we would have been without them. While poverty has not been eradicated, incomes have been raised. The Green Revolution has brought food to millions who might otherwise have starved. Some scourges, like river blindness, have been almost eradicated, and we have made progress against many others. We have gone for more than a half-century without a major global crisis. The system withstood large shocks, such as the huge increase in oil prices. And in that half-century, the institutions have evolved with the global economy. But we cannot pretend that all is well. We cannot close our eyes to the fact that the crisis has exposed weaknesses and vulnerabilities that we must address. We must be bold, but we must also be realistic. We will not devise a new architecture in two days, or even two weeks. But neither can we afford a lost decade like the one that afflicted Latin America in the aftermath of its crisis in the early 1980s. Too much is at stake, too many people's lives. What we can do here and now is this: we can identify what needs to be done. We can recognize the problems. We can clarify our objectives. We can work to reach a consensus. The problems are too big, their consequences too important, to be guided by the pat answers of the past or the fads or ideologies of the day. We must make a collective commitment to join together to build something better. Let me suggest a three-pillared approach.

The first pillar must be prevention: we must understand the causes of the crises and work to create economic structures that make them less frequent and less severe. The second pillar must be response: no matter how successful we are in the first task, there will be crises. We need to devise more effective ways of responding to the crises, ways that entail a better sharing of the burden, ways that do not entail such pain on workers, small businesses, and other innocent victims. The third pillar must be safety nets: no matter how successful we are in devising fair and efficient responses—and it is clear that we have a long way to go—there will be innocent victims. Unemployment rates will rise. We must do a much better job of ensuring that these innocent victims are protected.

At the request of finance ministers, we have been working to increase collaboration between the Bank and the Fund. Ministers asked us to review our division of labor, and we have done that in a spirit of true partnership. Our roles are clearly different. The Fund's mandate covers surveillance, exchange rate matters, balance of payments, growth-oriented stabilization policies, and their related instruments. The Bank has a mandate for the composition and appropriateness of development programs and priorities, including structural and sectoral policies—and therefore, by building a sound basis for development, a responsibility for crisis prevention.

At this moment of crisis, with private sector funds withdrawing from emerging markets, IMF resources strained, and little direct support from more wealthy nations, we recognize the obligation to be a countercyclical lender, committed to help where it is needed, not just in the crisis countries but for our many clients who are excellent performers—but who are caught short in the current squeeze for funds in the global markets. Yes, we must help them so that they do not become crisis countries. Yes, we must come in quickly in crisis countries to make sure that social, institutional, and policy reform can take immediate root and are integral parts of the overall program—that the responses to the crisis enhance long-term recovery. Yes, we must come in quickly with emergency social assistance. But ours is a different role from that of the Fund. We can be an emergency lender, but we cannot be a liquidity lender. Given our financial structure, and the need to stay within our prudent lending limits, there are trade-offs that we cannot ignore.

If we are to lend more up front, there will be less to lend for our long-term development mission, less for the IDA, less for the HIPC Initiative, as well as less for the poor in the crisis countries. New demands made on us will require a very careful assessment of possible needs for new resources. Today, backed by our existing capital and resources and substantial uncalled capital, we are in a very strong position, but as we move forward, we must be careful not to find ourselves constrained by capital. We must also remember that we cannot be distracted from the urgent need to ensure that we have full funding for the poorest countries through the twelfth replenishment of IDA and the HIPC Initiative. That must be a priority in the weeks and months ahead.

When we look at the pace and the depth of global change over the past 12 months, we, like all of you in this room, are concerned about what are the lessons we should learn from these experiences. We, like all of you, are asking, what can we do differently in the future to try to avoid these shifts in the economic and sociopolitical landscape? What is it that we have observed?

We see that, in today's global economy, countries can invest in education and health, can put macroeconomic fundamentals in place, can build modern communications and infrastructure—can do all this—but, if they do not have an effective financial system, adequate regulatory supervision, adequate bankruptcy laws, effective competition and regulatory laws, or transparency and accounting standards, their development is endangered and will not last.

We see that in today's global economy, countries can move toward a market economy, can privatize, can break up state monopolies, can reduce state subsidies, but if they do not fight corruption and put in place good governance, introduce social safety nets, have the social and political consensus for reform, or bring their people with them, their development is endangered and will not last.

We see that in today's global economy, countries can attract private capital, can build a banking and financial system, can deliver growth, can invest in people—some of their people—but if they marginalize the poor, if they marginalize women and indigenous minorities, if they do not have a policy of inclusion, their development is endangered and will not last. We see that in a global economy, it is the totality of change in a country that matters.

Development is not just about adjustment. Development is not just about sound budgets and fiscal management. Development is not just about education and health. Development is not just about technocratic fixes. Development is about getting the macroeconomics right—yes—but it is also about building the roads, empowering the people, writing the laws, recognizing the women, eliminating the corruption, educating the girls, building the banking systems, protecting the environment, and inoculating the children. Development is about putting all the component parts in place—together and in harmony.

The need for balanced development is true for East Asia and Russia. It is true for Africa. It is true for Latin America, for the Middle East, for the transition economies of Central and Eastern Europe and Eurasia. It is true for us all. The notion that development involves a totality of effort—a balanced economic and social program—is not revolutionary, but the fact remains that it is not the approach that we in the international community have been taking.

While we have had some extraordinary success over the many years with individual programs and projects, too often we have not related them to the whole. Too often we have been too narrow in our conception of the economic transformations that are required—while focusing on macroeconomic numbers, or on major reforms like privatization, we have ignored the basic institutional infrastructure, without which a market economy simply cannot function. Rather than incentives for wealth creation, there can be misplaced incentives for asset stripping.

Too often we have focused too much on the economics, without a sufficient understanding of the social, political, environmental, and cultural aspects of society. We have not thought adequately about the overall structure that is required in a country to allow it to develop in an integrated fashion into the type of economy that is chosen by its people and its leadership. We have not thought sufficiently about the vulnerabilities—those parts of an economy that can bring all the building blocks tumbling down—or about sustainability—what it takes to make social and economic transformation last. Without that, we may build a new international financial architecture, but it will be a house built on sand.

Let me suggest a concept that may help us address some of these concerns. The IMF has an overall framework that it reviews annually with its client countries—a framework that finance ministers, all of us, use to evaluate the macroeconomic performance of each country.

Today, in the wake of crisis, we need a second framework, one that deals with the progress in structural reforms necessary for long-term growth, one that includes human and social accounting, that deals with the environment, that deals with the status of women, rural development, indigenous people, progress in infrastructure, and so on. So, in our discussions at the Bank, we have developed and are experimenting with a new approach—one that is not imposed by us on our clients but developed by them with our help—an approach that would move us “beyond projects,” to think instead much more rigorously about what is required for sustainable development in its broadest sense.

We need a new development framework. What might countries look for in such a development framework? First, the framework would outline the essentials of good governance—transparency, voice, the free flow of information, a commitment to fight corruption, and a well-trained, properly remunerated civil service.

Second, it would specify the regulatory and institutional fundamentals essential to a workable market economy—a legal and tax system that guards against caprice, secures property rights, and ensures that contracts are enforced, that there is effective competition and orderly and efficient processes for resolving judicial disputes and bankruptcies, a financial system that is modern, transparent, and adequately supervised, with supervision free of favor, and with internationally recognized accountancy and auditing standards for the private sector.

Third, our framework would call for policies that foster inclusion—education for all, especially women and girls; health care; social protection for the unemployed, elderly, and people with disabilities; early childhood development; and mother and child clinics that will teach health care and nurture.

Fourth, our framework would describe the public services and infrastructure necessary for communications and transport: rural and trunk roads; policies for livable cities and growing urban areas so that problems can be addressed with urgency—not in 25 years when they become overwhelming—and alongside an urban strategy, a program for rural development that provides not only agricultural services, but also capacity for marketing, financing, and the transfer of knowledge and experience.

Fifth, our framework would set forth objectives to ensure environmental and human sustainability—so essential to the long-term success of development and the future of our shared planet—water, energy, food, and security, issues that must also be dealt with at the global level. We must ensure that the culture of each country is nurtured and enriched so that development is firmly based and historically grounded—all of these five, of course, within a supportive and effective macroeconomic plan and open trade relations. This may not be a comprehensive list. It will vary from country to country, depending on the views of government, parliamentary assemblies, and civil society, but I would submit that it gets at the essentials.

We must learn from the past—how a framework is developed and applied is as important as the contents of the framework. Ownership matters. Countries and their governments must be in the driving seat, and, in our experience, the people must be consulted and involved. Participation matters—not only as a means of improving development effectiveness, as we know from our recent studies, but as the key to long-term sustainability and leverage. We must never stop reminding ourselves that it is up to the government and its people to decide what their priorities should be. We must never stop reminding ourselves that we cannot and should not impose development by fiat from above—or from abroad.

In our discussions at the Bank we ask each other a simple series of questions. What if it were possible for governments to join together with civil society, with the private sector, to decide on long-term national priorities? What if it were possible for donors to then come in and coordinate their support, with countries in the driver's seat, with local ownership and local participation? What if it were possible for these strategies to look 5, 10, 20 years ahead, so that development could really take root, grow, and be monitored on an ongoing basis? Too ambitious, some will say, too utopian; but what if I told you it is already happening?

In El Salvador today, there is a national peace commission, born of civil war, which together with civil society, the private sector, and the government, is drawing up a list of national priorities, so that those priorities can extend beyond the life of one government and become part of a national consensus for the future. The same thing is happening in Guatemala and is being considered elsewhere in Latin America.

In Ghana last year, the government held a National Economic Forum in Accra, involving policymakers, civic leaders, and large numbers of stakeholders. Out of this forum came proposals for concrete action, targets for reducing inflation, and sectoral policies on agriculture and human development, with goals for macroeconomic policy.

In Andhra Pradesh in India, a state of 70 million people, the Chief Minister has a program for 2020: a program for literacy, for improved access to health care, for livelihood, empowering women, developing backward areas, and creating safety nets—a program with clearly monitorable targets that can be regularly checked.

El Salvador, Guatemala, Ghana, India, and I could have added others where there are elements of this approach—Brazil and Mozambique. These are not countries that have reverted to central planning. These are countries that, together with their stakeholders, are designing road maps for the future—their future—in much the same way as do successful businesses.

Hubris should not allow us to think we at the Bank or in the donor community can be the cartographers, but we can be important catalysts. What I am proposing is that, over the next couple of years, we bring a new perspective in working with interested governments and in drawing up holistic frameworks that sharpen strategic vision. We would like to find two countries in each region of the world that we could work with to test this idea. We will report to you all at the end of that time.

We must work with our partners in the donor community to see how, together with the participant countries, we can develop coordinated strategies, joint missions, and joint objectives, so that we can put an end to the duplication that wastes precious resources and leaves tempers and clients frayed.

Within our institution, we must build on the work we have already begun to move from a project-by-project approach to an approach that looks at the totality of effort necessary for country development, that takes the long view, and that asks of every project: how does this fit into the bigger picture? How can this be scaled up to cover the country? How can this be rolled out over time—5, 10, 20 years—so that it is not only fully owned by countries and participated in, but becomes sustainable and part of the strategy and fabric of that society's overall development?

In some cases we will go beyond national strategies to regional strategies to better reap the benefits of economies of scale. We must also think of global strategies to achieve global public goods—not only the often-discussed need for a cleaner environment, but also the international economic environment, whose instability is of such concern today—and knowledge which we are increasingly recognizing as a key to successful development. What we are talking about is a new approach to development partnership.

It is a partnership led by governments and parliaments of the countries, influenced by the civil society of those countries, and joined by the domestic and international private sectors, and by bilateral and multilateral donors. It is a partnership that can look at measurable goals with much better marked road maps for development achievement. Critically, it is a partnership where we in the donor community must learn to cooperate with each other, must learn to be better team players capable of letting go. Let me assure you that we in the Bank Group are committed to such a partnership, to putting issues of turf behind us. What matters is not who leads, or who follows, who has their name on a project or who is anonymous. What matters is that we join together to get the job done.

In normal years at this stage in the speech I would give you a progress report on the Bank's achievements. But this is not a normal year. You will be happy to hear that I will not mention the Strategic Compact, nor will I tell you of our achievements or the challenges that still lie ahead. All these issues I discuss regularly with our Executive Directors and I am extremely grateful for their advice, guidance, and hard work**.** I am also very encouraged by the support that I have received from Ministers for our renewal program and the improvements we are making in development effectiveness, and we will, of course, push ahead with that program. However, it seems inappropriate to talk of housekeeping when the village is burning.

Let me just say two things. First I want to take this occasion to thank World Bank Group staff for the extraordinary work that they have done this year. I am enormously proud of them. There is no better team of dedicated and motivated colleagues in the world today. Second, I want to thank Jannik Lindbaek, Executive Vice President of the International Finance Corporation (IFC) and Akiro Iida, Executive Vice President of the Multilateral Investment Guarantee Agency (MIGA) for their work over the past five years. I am delighted also to welcome Peter Woicke, who shortly takes up the leadership of IFC, and Motomichi Ikawa, who is now leading MIGA.

This year, the headlines have been full of the financial crises. This year, we are asking ourselves how we can prevent the financial crises of the future. This year, we are focusing on financial architecture**,** corporate restructuring, and building strong safety nets as part of both crisis prevention and crisis resolution. This year, we are waking up to the fact that we do not have all the answers.

Let us not stop at financial analysis. Let us not stop at financial architecture. Let us not stop at financial sector reforms. Now is our chance to launch a global debate on the architecture—yes—but also on the foundations of development. Now is our chance to show that we can take a broader and more balanced view. Now is our chance to recognize that there is a silent crisis looming on the horizon: a crisis of world population that will add 3 billion more people to the planet over the next 25 years; a crisis of global water that will see 2 billion people suffering from chronic water shortages by 2025; a crisis of urbanization that will mean that urban populations will treble over the next 30 years and that, by the year 2020, two-thirds of Africa's population will live in cities, cities that today have no economic growth; a crisis of food security that will mean that over the next 30 years food production will have to double—a human crisis from which the developed world will not be able to insulate itself; a human crisis that will not be resolved unless we address the fundamental issue of the essential interdependence of the developed and the developing world; a human crisis that will not be met unless we begin to take a holistic approach both to development and to how we respond to crisis, looking at the financial, the social, the political, the institutional, the cultural, and the environmental aspects of society, together.

The poor cannot wait on our deliberations. The poor cannot wait while we debate new architecture. The poor cannot wait until we wake up—too late—to the fact that the human crisis affects us all. The child on the streets of Bangkok needs to go back to school. The mother in the slums of Calcutta needs to survive through childbirth. The father in the village in Mali needs to be able to see beyond today. As markets tumble and the poverty numbers soar, all of us in this room have a shared responsibility and a shared interest in promoting prosperity, in developing and emerging markets. As markets tumble and the poverty numbers soar, all of us in this room have a shared responsibility to put in place policies that can help these countries work their way out of crisis.

In the end, we succeed or we suffer together. We owe it to our children to recognize now that their world is one world linked by communications and trade, linked by markets, linked by finance, linked by environment and shared resources, and linked by common aspirations. If we act now with realism and with foresight, if we show courage, if we think globally and allocate our resources accordingly, we can give our children a more peaceful and equitable world—one where poverty and suffering will be reduced, where children everywhere will have a sense of hope.

This is not just a dream—this is our responsibility.

Report to the Board of Governors of the International Monetary Fund by the Chairman of the Interim Committee of the Board of Governors on the International Monetary System[1]

Carlo Azeglio Ciampi

I welcome this opportunity to report to the Governors on the activities of the Interim Committee that I have now the honor to chair. The world economy is at a critical juncture. Large areas are facing declining or negative output growth, disquieting financial instability, and sharply falling living standards.

Of particular concern is the magnitude of the contagion effects on otherwise sound economies which have been worse than anticipated. The economic picture, however, has some positive aspects, that, if reinforced, can help countries to overcome current difficulties. I am now referring, in particular, to the continuing generally solid growth amid low inflation in the industrial countries of North America and Western Europe and to the Economic and Monetary Union in Europe that is already contributing to monetary stability.

Today's problems in the world economy are not insurmountable, but their solution requires more than ever a clear sense of their action as regards the economic and the financial adjustment that must be introduced and determination on the part of the countries in implementing rapidly all the necessary measures, particularly structural reforms and solidarity within the international community of member countries to make the difficult task both manageable and socially acceptable.

The Interim Committee considered at length these challenges and deemed it essential that the member countries take forceful action on a broad range of policies in order to restore market confidence and growth where needed. Given the present global situation, a strong cooperative effort is now required and should be pursued by all countries and institutions in order to support those countries that have been most adversely affected and which are implementing sound adjustment programs.

In discussing the policy response to the crisis, the Committee called on member countries to adopt confidence in restoring policy measures by addressing domestic and external sources of vulnerability. They were also concerned about the depth of the recession and its negative impact on large sections of the population.

A major contribution to overcoming the current deterioration of economic conditions has to come from appropriate policies being followed in

[1]October 6, 1998.

the industrial countries. Continuing fiscal stimulus and the decisive measures for bank restructuring are essential in Japan, to revive economic activity on a durable basis.

On the United States and the European Union countries, the Committee welcomes the recent interest rate reductions and supports the readiness to take other measures in view of maintaining durable growth and financial stability.

In the context of the overall strategy, the International Monetary Fund, in particular, is called to provide, as is its institutional mandate, policy guidance, financial support, and assistance in policy implementation. The IMF should keep a central role in this strategy, and, to this end, it must be endowed with all necessary resources to fulfill this task.

The reach of the crisis has underscored the need to reexamine and to strengthen the architecture of the international monetary system in order to better tailor its roles and institutions to the evolving needs of the global economy and international financial system. The Committee stressed the need to widen the scope of recent work in order to encompass other crucial aspects concerning the management and the resolution of the financial crisis. The institutional components of the international monetary system also require a thorough review, including the possibility of strengthening and transforming the Interim Committee itself.

On a number of points of great importance for financial stability in the international system, there is already broad agreement. These include developing and disseminating internationally accepted standards to increase transparency as regards countries' economic policies and the financial markets' participants, more openness on the Fund's policies, new approaches for a greater involvement of private financial institutions in foretelling and resolving financial crises, the importance of the countries' creating the necessary preconditions for capital movement liberalization, particularly in terms of a solid financial system and effective prudential framework and understanding the Fund's policy of lending into arrears.

The Committee also drew the attention of the potential contributor countries to the urgency of securing the necessary financing of the Enhanced Structural Adjustment Facility and of the Initiative for Heavily Indebted Poor Countries, and encouraged potentially eligible countries to start the needed adjustment programs as a prerequisite to benefit from these initiatives.

To conclude, I wish to express my personal satisfaction for the substantial work carried out by the Interim Committee during the past year. In the last Committee session that I had the privilege of chairing, I was impressed by the spirit of the meeting, no recriminations, and certainly a profound awareness on the part of all the participants for the difficult passage that the world economy is now undergoing. I was struck by the unanimous commitment to work together to overcome the present difficulties. This spirit of cohesion and cooperation will deserve—I am sure—the renewed market confidence.

Report to the Boards of Governors of the Fund and the Bank by the Chairman of the Joint Ministerial Committee of the Boards of Governors on the Transfer of Real Resources to Developing Countries (Development Committee)[1]

Tarrin Nimmanahaeminda

As Chairman of the Development Committee, I am pleased to report to you the Committee's work during the two meetings held during this year. I am honored to have been selected by the Committee as Chairman, succeeding Mr. Anwar Ibrahim, former Deputy Prime Minister and Finance Minister of Malaysia. The Committee's communiqué, issued after yesterday's meeting, expressed ministers' great appreciation for his able Chairmanship of the Committee at its meeting last April. Last March, he had succeeded the Honorable Driss Jettou from Morocco, who made the last Annual Report to you one year ago in Hong Kong.

In attempting to summarize the Committee's work in this past year, three key themes emerge. These are:

- an attempt to address problems of middle-income countries, particularly those resulting from the current Asian crisis;
- a search for additional ways to help poor countries deal with their special needs; and
- the encouragement it has given to the strengthening of the Bretton Woods institutions' ability to assist all its members.

Let me address each one briefly. The first theme is a focus on issues primarily related to middle-income countries, emerging market countries, and countries in transition. The main topic in the Committee's last two meetings has been the Asian crisis and its aftermath. Members addressed the broad range of issues generated by the crisis and the steps needed to support sustained recovery in the region. While members initially concentrated on the impact in East Asia, we have also broadened the focus as the global ramifications of the crisis increased the vulnerability of all countries.

Within this broad context, and mindful of the work of the Interim Committee on which Chairman Ciampi has just reported, the Committee has concentrated particularly on financial sector issues, the social consequences of the crisis, and other key development priorities. Yesterday we paid special attention to the response of the World Bank.

[1]October 6, 1998.

The second key theme that has characterized the Committee's work in this past year is the focus on the especially difficult problems of the poor countries. The Committee has urged a successful conclusion of the negotiations on the twelfth replenishment of the International Development Association now under way, and stressed the need to secure the financing of the Fund's Enhanced Structural Adjustment Facility, given their critical importance to the reduction of poverty in the poor countries.

It was in the Committee over two years ago that the HIPC Initiative was successfully launched. Since that time, seven very poor countries have been included in the program; these countries are scheduled to receive over $6 billion in nominal debt service relief. In our meeting yesterday, Members expressed continued strong support for HIPC and for the extension by two years of the entry deadline. They encouraged all eligible countries to meet the conditions for assistance so that they would be able to benefit from this innovative program.

Yesterday we also discussed the special problems faced by countries emerging from conflict situations. The extremely difficult circumstances of these very poor countries require special attention, but Members recognized that they also create especially difficult policy issues for international financial institutions when they seek to provide substantial assistance. As a result, the Committee requested that the Bank and the Fund, along with their partners, develop an approach to guide assistance to these countries. We shall review this subject again at the next meeting.

The third key theme of the Committee's recent work cuts across all these country concerns; this theme is the Committee's support for the strengthening of the World Bank Group and the Fund so that they can best serve the interests of their members. Much attention has been paid to the strengthening of Bank-Fund collaboration, and we have seen considerable evidence of the fruits of these efforts by the two managements. The Committee looks forward to reviewing this subject again in the future.

The Committee has been a strong supporter of the Bank's Strategic Compact and Bank management's ambitious goals of augmenting skills and capacities in new areas of concentration. The Committee receives regular reports on the Compact's implementation.

Following up on the Committee's 1996 Multilateral Development Bank Task Force Report, the Committee has continued to promote a deeper partnership between the World Bank and the regional development banks.

It has never been more important to ensure the Bank's financial soundness, and so the Committee has addressed in both meetings this year the Bank's income dynamics and its overall financial structure, particularly in light of the increasing demands placed on its resources as a result of the East Asian crisis and its impact on other regions.

As a newcomer I am impressed with the breadth of the Committee's mandate and the opportunities it offers to strengthen international cooperation. The Committee, representing the full range of the Fund and Bank membership, can use these semiannual meetings to address critical issues in a forum small enough to permit a real exchange of views. It can call upon the vast combined resources of the Bank and Fund—its management and its staffs—for a wealth of information and experience. But in the end, the value of the Committee lies in the degree to which we as ministers are prepared to use these opportunities to good advantage. I am honored to be part of this effort.

Statement by the Governor of the Fund for the Republic of Armenia

Armen R. Darbinian

It is a pleasure to be here this morning, to have this opportunity to speak before such a distinguished and knowledgeable audience. On behalf of the government of Armenia, I welcome the participants of the World Bank and IMF Annual Meetings. It is my belief that this gathering today will have a major role in overcoming the pressing issues that the global economy faces today.

This has been a year of achievements and challenges for all of us; moreover, it has been a period of learning. We have been witnessing new accomplishments in the areas of economic growth, poverty alleviation, and integration trends. At the same time, we have also been witnessing the consequences of the recent financial crisis.

Today, almost everyone agrees that an integrated international financial system is essential for development. Improving the financial system can lead to higher growth and reduce the likelihood and severity of crises. In speaking about financial reform, we need to treat liberalization as a means rather than an end.

The future of the international monetary system has now become a subject that is widely discussed. We appreciate the IMF's efforts to work with the member governments on proposals to strengthen the architecture of the international financial system by identifying steps that can be taken to minimize the risks of crises in the future. We need to have a global system that is stable, sound, open, transparent, and fair.

The crisis that began in Thailand in mid-1997 has spread beyond Asia to Russia and is now affecting countries all over the globe. The affected countries and the other emerging market economies need to continue to undertake the hard work of disciplined macroeconomic policies, which involve sound public finance, a stability-oriented monetary policy, and a pragmatic and transparent approach to exchange rate management. In this regard great importance should be attached to the role of IMF and the World Bank in the following three directions: first, maintenance of stability in international financial markets; second, prevention of the expansion of financial crises and provisional support to affected countries; and third, introduction of new consultation mechanisms on a regional level.

In elaborating on this last point, it is our understanding that we would gain more if the IMF started its Article IV consultations on a regional level in addition to the state level. With regard to economic policy development, many of the countries that are closely cooperating with international financial institutions are, on the contrary, very passive at the regional level. Consultations on a regional level would provide us with a possibility to substantially decrease the threat of the expansion of financial crises and will highly contribute to economic growth.

The twenty-first century, I believe, will be a period of economic integration among countries. At this point, we are witnessing the emergence of new developments, such as an integrated communications system; regional infrastructure development; and the free movement of labor, commodities, and capital. There is a pressing need for joint management and operation of oil and gas pipelines; communications; and construction of roads and railways, which will result in the more effective utilization of the existing infrastructures. These will provide additional possibilities for countries to fully use their potential.

Regional cooperation is a first priority foreign policy issue for Armenia. We have repeatedly expressed our readiness to foster such cooperation. As such, Armenia is proving its commitment to this on a day-to-day basis, be it within the framework of cooperation among the Caucasian states, the NIS, the Black Sea Economic Cooperation Pact countries, and the Transport Corridor Europe Caucasus Asia program. This is also demonstrated by Armenia's stance toward acquiring membership in the World Trade Organization. Last year, we accepted Article VIII of the IMF Articles of Agreement. Also, Armenia is among the few countries that have joined the fourth article of the aforementioned Agreement.

However, to our great regret, we have to state that regional cooperation in the Caucasus is obviously being hampered by the blockade imposed on Armenia by Turkey and the Azerbaijan Republic. No region can reach its full development potential while attempts are being made to isolate one of its components. Such attempts are doomed to failure, as they hinder regional cooperation, which has become imperative as we enter the third millennium.

We understand that the efficient utilization of Armenia's possibilities, afforded by its strategic location, is directly linked to the political stability and economic prosperity of the country. In this regard, the government of Armenia has adopted the following policies for the coming five years:

- First, in the political arena, our goal is the creation of a democratic society.
- Second, in the economy the major task for us is the formation of a legal basis that will establish a competitive framework for a liberalized market economy. Also, we need to encourage the supremacy of private ownership.
- Third, in the social sphere, we recognize that the state should guarantee a necessary level of social protection for everyone, and should provide citizens with the possibility to fully apply their potential.

Today, the economy of Armenia has demonstrated significant achievements. A strong economy is the guarantee for a strong country; this has become the slogan of twenty-first century Armenia. Since the beginning of 1998, a transition has been made from the stabilization policies that were adopted at the start of independence to strategies for high economic growth and maximum encouragement of investments. The new government's program of macroeconomic, structural, sectional, and institutional development policies, approved by the Parliament of Armenia in May 1998, has introduced the concept "From Stabilization to Economic Growth." The implementation of this program is to provide by year-end real GDP growth of 6 percent or more annually, with inflation lower than 10 percent. Consequently, an unprecedented high rate of economic growth was registered, and new export possibilities were also discovered.

A substantial increase in the volume of investments has been observed this year in Armenia. I would like to emphasize the importance of IFC and MIGA in providing support for investors throughout the world, and I encourage them to expand their activities in our country as well. I am sure that, building upon Armenia's strong macroeconomic and structural reform record, these institutions could be more responsive to the country's pressing investment needs.

Investment in human capital is another important point of our policy. We believe that Armenia's highly educated labor force is one of the major factors contributing to the country's future economic growth. The government of Armenia gives priority to the reforms in the education and health sectors in its overall economic reform program. In this regard we are going to enhance our relationship with the World Bank.

To summarize I want to restate the message that long-term and sustainable economic growth will enable us to meet the challenges that we are facing today in our collective goal of creating a peaceful, integrated, and stable world.

STATEMENT BY THE GOVERNOR OF THE BANK FOR AUSTRALIA

Rod Kemp

I join with other Governors in welcoming, most warmly, Palau as a member of the Fund and the Bank and as a member of Australia's constituencies. The Australian Treasurer, Peter Costello, is not able to be here today, due to our federal elections. He has asked me to record his support for the Managing Director and the President as they lead the Fund and the Bank in these difficult times. He also wishes to pay tribute to Anwar Ibrahim for the outstanding contribution he has made in chairing the Development Committee.

We are all aware of the seriousness of the current financial crisis and the weakened outlook for the global economy. However, we should avoid excessive gloom. There is continuing solid growth in two pillars of the world economy—North America and continental Europe. Global growth is forecast to be positive, albeit slower than was envisaged a year ago. China's policies are contributing significantly to stabilization in Asia. Moreover, there are signs of emerging recovery in countries such as Korea and Thailand that are applying themselves vigorously to implementing Fund and Bank programs.

The Australian economy is also continuing to grow solidly and represents another area of relative strength in the world economy. This is despite the closeness of our trade links with Asia and the openness of our capital markets. In large measure, the resilience of the Australian economy in the face of the crisis reflects sound macroeconomic policies, a return to budget surplus, the benefits of structural reforms, strong financial institutions, and a flexible exchange rate.

Last weekend the Australian government was reelected on a platform based on continuing sound economic management and continuing economic reform. Comprehensive reform of the tax system—including the introduction of a new value-added tax, major reductions in income tax, and the abolition of a wide range of inefficient taxes—was the centerpiece of our election commitments. It will follow action already taken by the government to introduce much greater transparency in fiscal and monetary policy, to further improve the laws governing corporations, and to upgrade prudential regulation of the financial sector by bringing all institutions under a single regulatory regime. Australia is at the forefront of world practice in these fields, and that has served us well in the current global crisis.

Introducing such changes is never easy, but Australia's experience should help give others confidence that difficult but necessary changes can be introduced and accepted by our electorates if the necessary political effort is made.

There is a great deal of consensus about the action that needs to be taken in dealing with current global problems. Markets need to put aside any tendencies toward “knee-jerk” reactions and look carefully at the circumstances of individual borrowers, so that credit can continue to flow to sound enterprises. Credit is the lifeblood of every economy. Countries in crisis need to resolve quickly any doubts affecting the creditworthiness of financial institutions so as to restore the health of their banking systems. Continuing efforts are needed to address deep-seated structural and institutional problems. Moreover, industrial countries have a key role in sustaining global demand and accepting the inevitable deterioration in their balance of payments that is a necessary part of restoring growth elsewhere.

Each of us must play our part in resolving the crisis. Japan has a crucial role to play. It is vital that the problems in the financial sector be resolved quickly, and a healthy banking system reestablished. The actions that the Japanese government has already announced affecting the financial sector need to be pursued as a matter of urgency, while the announced fiscal stimulus should be brought into effect without delay. In the past, the effectiveness of fiscal packages has been weakened by uncertainties about their precise contents. Improvements in fiscal transparency of the type we have already introduced in Australia could yield even greater dividends in Japan.

It is also very important that we work to strengthen the international trading system and to keep markets open. We must maintain the momentum of trade liberalization and work together to pursue these goals, including in the World Trade Organization and Asia-Pacific Economic Cooperation (APEC). We welcome President Clinton’s announcement yesterday that he will be seeking to take up this issue at next month’s APEC Economic Leaders meeting. We look to all APEC members to accept this challenge.

Australia wishes to add its voice in supporting speedy implementation of the general quota increase and adherence to the New Arrangements to Borrow. We welcome also efforts by the Bank and the Fund to develop new instruments to provide liquidity support for crisis economies and for economies with sound fundamentals that may also be affected.

From the beginning of the current financial crisis last year, Australia has played a very active role in international efforts to deal with it. We participated in the support groups for Thailand, Korea, and Indonesia. We are promoting the development of regional surveillance in the Manila Framework Group. In APEC, we are sponsoring and supporting a range of initiatives to strengthen regional institutions and markets. And we have encouraged the Fund and the Bank in their efforts to assist regional economies and participated in international discussions, such as those of the so-called Willard Group.

There is also a good deal of agreement on the areas in which work is needed in strengthening the architecture of the international financial system. This has been reflected in our discussions this week, including at the meeting of finance ministers and central bank governors in the Willard Group. The reports of the three working parties provide a valuable road map for navigating the complex issues involved. Their conclusions should now be taken up in appropriate national and international agencies. The IMF and World Bank should also proceed with urgency in implementing the specific conclusions reached in the Interim and Development Committees over the last few days.

In particular, Australia gives high priority to the need to promote greater transparency in both the public and private sectors to provide a better information base for economic decision making, including in the financial sector. Inadequate or unreliable information is a potent source of market uncertainty. Redressing existing deficiencies and making further improvements can do a lot to reduce potential sources of instability.

In this context, Australia welcomes the progress that has been made in the development and implementation of data dissemination standards. As set out in the relevant working party reports, more needs to be done to improve them further and to encourage adherence to them. Greater impetus also needs to be given to the development of improved international accounting standards and prudential standards.

Private sector participants in foreign currency markets also need to provide greater transparency in their activities. At present, they are subject to much less reporting requirements than most other financial markets. In view of their importance for global stability, this imbalance needs to be redressed.

We also need to press ahead with efforts to strengthen financial systems, both nationally and internationally, to help avoid the development of crises, as well as efforts to improve the handling of crises when they occur.

Important improvements have been made to Fund/Bank collaboration and at some point it may be desirable to revisit the division of responsibilities. But for now the Fund and the Bank should work harder toward a pragmatic and businesslike delineation of their responsibilities, recognizing that the focus of reform in crisis economies is now clearly on structural issues.

Finally, Australia supports efforts being made to provide assistance to those who are most adversely affected by the crisis through poverty alleviation and social support programs. It is also important that we maintain our efforts to relieve the burden of unsustainable debt in the poorest countries through the HIPC and ESAF initiatives.

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

Wolfgang Ruttenstorfer

As Austria currently presides over the Council of the European Union, I have the honor of addressing this meeting on behalf of the Union. My speech will center on the following topics: the outlook of the world economy, the progress made toward European Economic and Monetary Union, and the European Union's contributions toward international financial stability.

Global economic and financial conditions have become more volatile in the course of this year. World economic growth has slowed down, mainly as a result of the economic and financial turmoil that started in Asia and has spread to other regions. The impact of increased global financial instability is unevenly distributed. While growth in industrial countries has generally remained steady, the situation in many emerging economies has deteriorated markedly, sometimes despite the pursuit of sound policies.

The short-term outlook for the world economy points to sustained growth in 1999, but the risks are higher on the downside. Key factors in this context are the pace of recovery in Asia, the resumption of sustainable growth in Japan, the vigorous implementation of a market-oriented economic reform program in Russia, and the containment of contagion effects to other regions. Global inflationary pressures are set to remain fairly subdued. To a large extent, this is due to the general commitment around the world toward stability-oriented policies, which were supported by the behavior of world commodity markets, where prices have fallen markedly.

Financial conditions in emerging Asia have stabilized somewhat as a result of strong policy responses to the crisis, but the impact of the crisis on domestic demand, output, and employment in the countries affected is far from over. Liquidity constraints, financial sector weaknesses, and corporate bankruptcies continue to put a severe strain on economic activity. However, external balances have improved considerably, and export volumes have begun to pick up, thus contributing to a recovery of growth. The European Union fully backs the IMF-supported economic and structural reform programs undertaken by the countries affected. Continued persistent implementation of these programs should restore confidence and lead to a resumption of capital inflows.

The economic situation has also deteriorated in Japan, which is most closely linked to the countries in crisis, and which is suffering from a protracted weakness in domestic demand as well as long-standing financial sector problems. The European Union urges Japan to take the necessary structural reform measures—particularly in the banking sector—and to implement a sustainable fiscal policy in order to ensure a strong domestic-demand-led recovery.

Russia has fallen into a deep economic and political crisis which was accentuated by the announcement of unilateral measures in mid-August. The European Union calls on the government of Russia to take all necessary steps toward the reestablishment of credibility within and outside the country, toward solving its structural budget problem, which is the essential precondition for the control of inflation, and toward restructuring the financial and corporate sectors.

Economic conditions are uneven in other parts of the world. The U.S. economy continues to enjoy a robust expansion. A moderate slowdown in domestic demand, together with favorable developments in commodity prices and the appreciation of the dollar has somewhat reduced the risk of overheating and should enable the U.S. economy to contain inflation. Latin American countries have substantially strengthened their macroeconomic performance and are generally pursuing sound domestic policies that in some cases need to be accompanied by a strengthening of their budgetary positions. However, financial market contagion has increased financial instability and poses serious challenges for macroeconomic management. In this context, greater market awareness of country-specific circumstances may be called for. Growth in developing countries has slowed only moderately. In a large number of countries, sound macroeconomic policies and the commitment to market-oriented structural reform have improved the economies' medium-term growth potential. Still, large disparities in economic performance remain. The transition countries of Central and Eastern Europe have generally shown steady growth and resilience vis-à-vis financial market fluctuations. In a number of countries, policy measures to contain external imbalances and to avoid overheating were implemented.

The European Union and its Member States continue to be fully committed to promoting international cooperation and to maintaining a stable and sound economic environment. They actively contribute to resolve the current difficulties in Asia both through bilateral and multilateral channels. The recently created ASEM Trust Fund, to which the Union and a number of Member States contribute, will provide Asian countries with technical assistance and advice on restructuring their financial sectors and on measures to deal with the social problems caused by the crisis. We also welcome the private sector involvement, including European banks, in resolving the financial difficulties of Asian countries.

The European Union also remains strongly committed to its strategic partnership with Russia. Resumption of financial aid, however, is contingent upon the presentation of a convincing market-oriented reform program by the Russian government and credible steps toward its implementation. If so requested, the European Union will restructure its technical aid toward Russia, in order to better assist in the process of institution building.

Growth in the EU has become increasingly solid and even-based. The recovery, which was initially export-led, is underpinned by a healthy upswing in domestic demand, though obviously its future pace will also depend on global economic and financial conditions. In an environment of low inflation and low interest rates, private investment and consumption growth have strengthened. A high degree of convergence among European economies in the run-up to Economic and Monetary Union has been attained, as reflected in a sizeable reduction of budget deficits and inflation rates. These achievements, which have been acknowledged by the markets through low and converging long-term interest rates and a high degree of exchange rate stability, also during recent upheavals in the international financial markets, set the conditions for sustainable noninflationary growth.

Regarding the introduction of the euro on January 1, 1999, the last phase of preparatory work on the policy and logistical framework is currently under completion. The legal and technical framework for the single currency is in place, ensuring legal certainty and facilitating a smooth transition for markets, businesses, and consumers.

At the beginning of May, the decisions on first-wave EMU membership and the preannouncement of the bilateral exchange rates used to determine the conversion rates, which will be irrevocably fixed on January 1, 1999, were taken. EU Heads of State or Government decided that, having fulfilled the convergence criteria according to the Maastricht Treaty, eleven countries will introduce the euro on January 1, 1999. The preannounced bilateral rates correspond to the bilateral central rates in the exchange rate mechanism (ERM), which are consistent with underlying economic fundamentals, and to which the exchange rates of participating Member States have tended to converge over the last two years. The calm and favorable reaction of financial markets to these decisions reflects the credibility and the sound economic footing of the EMU project.

The introduction of the euro will be accompanied by a framework designed to ensure stable prices, sound public finances, and thus an adequate policy mix in the euro area. On June 1, the European Central Bank (ECB) and the European System of Central Banks were created. Their independence and commitment to price stability are enshrined in the EU Treaty. The ECB Council will shortly decide about the monetary policy strategy and framework which is most appropriate to the achievement of this aim. In all Member States, sound fiscal policies will be pursued in the framework of the Stability and Growth Pact, which sets strict rules for the application of the budget surveillance procedure stipulated in the Treaty.

As agreed at the Luxembourg European Council in December 1997, economic policy coordination and surveillance within the Union is being stepped up in view of EMU. Enhanced coordination and surveillance encompass those national economic policies which have the potential to influence monetary and financial conditions throughout the euro area or the smooth functioning of the single market. This includes the monitoring of macroeconomic developments as well as budgetary surveillance and the monitoring of structural policies in labor, product, and services markets. Also, as from January 1, 1999, a new European exchange rate mechanism will help to ensure that Member States outside the euro area participating in the mechanism orient their policies to stability and thus foster convergence.

While the Council of Economic and Finance Ministers (ECOFIN) remains the core economic policy institution in the EU and the sole decision-making body, Ministers of the states participating in the euro area—the so-called Euro-11 Group—meet on an informal basis to discuss issues connected with their shared specific responsibility for the single currency. Whenever matters of common interest are concerned, they are discussed by all Member States.

The single currency will allow businesses and consumers to reap the full benefits of the European single market by reducing transaction costs, eliminating intra-European exchange rate risk, and increasing cross-border price transparency. Thus, a stable euro will create a potential for more growth and employment in the EU, the realization of which will also crucially depend on the implementation of various structural reforms, particularly in the labor markets.

Nevertheless, for the EU Member States a number of challenges remain. Unemployment, though recently receding, is still unacceptably high. Following common Employment Guidelines, Member States have developed Employment Action Plans, which they are in the process of implementing. The four pillars of the Employment Guidelines aim at improving employability, developing entrepreneurship, encouraging adaptability in business, and strengthening the policies for equal opportunities. To promote growth and employment, the EU Member States are also progressing with respect to structural reforms. Reforms of goods and services markets, as well as further efforts in reducing harmful tax competition, are under way. Member States and the Commission have agreed to undertake short, year-end reports on progress to improve the functioning of product and financial service markets. This will help the exchange of best practices. The further completion of the internal market requires additional action by promoting competition, reducing distortions, and fostering the implementation of Community rules relating to state aids. Sustainable economic development in the Union should be based on respect for the environment. In order to minimize negative externalities, protection of the environment should be integrated in practice into the definition and implementation of economic policies.

The EU has also embarked on the project of enlargement. The Union has formally opened accession negotiations with the five Central and Eastern European countries (Poland, Hungary, the Czech Republic, Estonia, and Slovenia) most advanced in their transition, plus Cyprus. They and the five other applicant countries are supported within a comprehensive pre-accession framework.

The enlargement process creates enormous opportunities. The EU is providing key support for the Central and Eastern European countries' transformation into fully fledged market economies and for their further integration into the world economy. An enlarged Union opens new dynamic markets and business opportunities, and will eventually lead to a single integrated market of more than 500 million people. Such a perspective is good not only for Europe itself, but for global trade and the global economy as a whole.

Preparing for EU enlargement is, however, not only a matter for the candidate countries. The EU itself has to adapt its institutional and decision-making structure as well as some of its policies—all this within the framework of stringent budgetary discipline.

The advent of the euro will be a major event for the international monetary system. The economic size of the euro area, the depth and liquidity of an integrated European financial market, and the pursuit of stability-oriented policies, notably fiscal and monetary policies, will over time lead to the emergence of the euro as a major international currency. This development will, however, be neither sudden nor disruptive. As a stable international currency, the euro will be able to contribute to the smooth functioning of the international monetary system.

During their informal meeting in Vienna, European Economics and Finance Ministers have launched a discussion on the means to strengthen their contribution to the stabilization of the international financial situation. We have come to the conclusion that:

- We should strive to put in place effective representation arrangements for the euro area on the international stage, with due respect to the Treaty provisions and to competencies that remain at the national level.
- We shall continue to participate actively in the process of answering the challenges posed by the current instability. Solutions would include the following actions and reforms.

The IMF should be endorsed as the centerpiece of the global financial system and it should be endowed with sufficient means to meet its responsibilities. More thorough consultation between industrial countries and emerging countries is needed, as the role of the latter in the world economy is growing and more especially as they have been affected by each recent financial crisis. Urgent approval of the IMF quota increase and the New Arrangements to Borrow (NAB) is critical and imperative for the smooth functioning of the international monetary system. It is also fundamental that the private sector is involved and contributes adequately to the solution of crises, both through informal coordination with international institutions and through a financial contribution toward solving the crises.

Present instability shows us the need for improved surveillance, data, and transparency. This should apply not only to banks but to other financial institutions as well, such as insurance companies, pension funds, and hedge funds. Besides, all financial centers should comply with rules governing transparency, international cooperation, and supervision.

In this context, the cooperation and division of labor among all international financial institutions become increasingly important. Their collective efforts to contribute towards the development of sound financial and corporate sectors are particularly welcome. Effective communication and collaboration between the IMF and the World Bank will be an important element in this respect. The World Bank and the Regional Development Banks will have to step up their efforts in supporting structural reforms, especially addressing the structural problems behind poverty. However, in their involvement in financial crises, their respective mandates should be fully respected. The leadership role of the IMF in financial crises is vital and lessons from the Asian crises will have to be incorporated into its future strategy and operational activities. In particular, this holds for the need to avoid moral hazard problems as much as possible. More IMF financing is never a substitute for necessary adjustment in the program countries.

The attention of the IMF has also turned toward the capital account, as the growing level of international capital flows opens up new opportunities while at the same time imposing a new set of administrative and institutional challenges on many countries. We support the IMF in its endeavor to incorporate capital movements into its jurisdiction. Our goal should be to foster an orderly and well-sequenced liberalization of the capital account. Sound financial sectors, effective prudential and supervisory systems, and appropriate macroeconomic and exchange rate policies are preconditions for successful capital account liberalization.

We are glad to see the HIPC Initiative is well under way. We urge all members to move quickly to complete the financing of these initiatives as soon as possible. We look forward to a further strengthening of the financial base of the HIPC Initiative and ESAF. We encourage eligible countries to pursue and where necessary strengthen adjustment efforts to qualify for this assistance.

It is regrettable that financing of the international financial institutions—and related activities like HIPC and the concessional funds of multilateral development banks—is increasingly being imposed on only part of the international donor community. Recognition of the importance of a coordinated, common approach to various crises should lead us to a fair burden sharing among those involved. We urge all countries to make a strong effort to meet their responsibilities in this respect according to their weight and importance in global affairs. We welcome that countries that have not been traditional contributors intend to participate in the NAB and also have contributed to the solution of the financing of the response to the

Asian crisis. This should, however, not lead other traditional contributors not to accept their fair burden.

Regarding the World Bank Group, the EU Member States welcome the strengthening of its operational capacity. This will reinforce the Bank's capacity to fight poverty effectively, to support structural reforms, and to provide assistance to developing countries in achieving socially and environmentally sustainable growth. We welcome all efforts to safeguard the World Bank's financial integrity. To make worldwide development efforts more effective and to compensate for decreasing flows of official development assistance (ODA), stronger and more effective cooperation among bilateral and multilateral donors is of greatest importance. In this respect we welcome the Bank Group's attention to fostering private sector development. We welcome the approach of the World Bank Group to enhance national ownership and to include all major stakeholders in the formulation of development strategies.

The EU Member States welcome the Bank's support of the transition countries of Central and Eastern Europe. We appreciate especially the cooperation of the Bank group with European Bank for Reconstruction and Development (EBRD) and EU institutions in assisting those countries which prepare themselves to join the European Union. The focus of the Bank on structural issues in the public sector and governance issues is particularly useful to countries on the verge of EU membership.

The Member States of the European Union taken together are by far the largest contributor of the IDA, and proved thereby its involvement in the ODA. This year we are focusing on its twelfth replenishment. EU Member States are participating in the negotiations very actively and are doing their utmost to successfully conclude the process within the next six months. As resources for concessional assistance and ODA in general are decreasing, it is even more important today that all donors take up their fair share in the replenishment and ensure that the IDA has a sufficient amount of funds available to help the world's 80 poorest nations to reduce poverty by means of achieving economically and environmentally sustainable growth, in particular in those countries with strong policy performance.

Statement by the Governor of the Bank for Bangladesh

Shah A.M.S. Kibria

It is a great privilege for me to address the 1998 Annual Meetings of the Board of Governors of the Bank and the Fund. I take this opportunity to extend to you, Mr. Chairperson, my warmest felicitations on your election to the chair of this august body. Let me also congratulate the Managing Director and the President for the leadership they have provided to these two important institutions since they assumed office. We have noted with appreciation the policies outlined by President Clinton for a growing world economy, free from volatility.

Since we met last in Hong Kong, it has not been an easy time. The high-performing economies of Asia plunged into a crisis that stalled the course of their rapid development. The contagion effect was apprehended, but no one knew for certain the depth and extent of its effect. It appears now that the contagion has spread far and wide—and threatens to engulf the world economy. Some economists even apprehend that the world may experience a deep depression unless corrective measures are taken quickly.

The threat to the world economy came at a time when liberalization was generally accepted and most of the developing countries had made significant progress in terms of policies for structural reforms and adjustment. The volatility of currency and capital market—especially speculation or predatory raids on the economies with vulnerability—has generated skepticism about the benefit of liberalization. The Bank and the Fund will have to take adequate measures to stem the tide of growing skepticism and any likelihood of reversal toward more insular policies. In this context, let me put on record my delegation's appreciation of the initiatives taken by the International Monetary Fund, the World Bank, and the regional banks. We listened with great interest to the opening statements made by Mr. Michel Camdessus and Mr. James Wolfensohn, which gave an excellent analysis of the origins of the current financial crisis and guidelines for its solution. I congratulate Mr. Camdessus and Mr. Wolfensohn for their statements.

The contagion effect of the Asian crisis has put the developing countries—particularly the least developed countries—in a difficult situation. First, the resources necessary for supporting development efforts and balance of payments have not increased relative to the enlarged needs. Second, as part of liberalization, we have adopted export-led growth strategies. The prospect of global recession dampens our export efforts. Third, the structural reforms and adjustment policies implemented so far clearly indicate that we should continue to pursue that strategy. The success of the strategy is contingent on adequate external support and expansion of the world economy.

Let me turn to my own country Bangladesh now. Since the present government took office in 1996, it has achieved remarkable success in a number of key areas; for want of time, let me touch on only a few of them:

- The present government, under the leadership of Prime Minister Sheikh Hasina, has established a representative local self-government system at the grassroot level. More important, the local self-government institutions are structured in such a way as to secure effective representation of women—to ensure their empowerment.

- The ethnic conflict that plagued Chittagong Hill Tracts for the past two decades has been brought to an end through peaceful negotiation. It is a unique case in the world where peace has been established by the parties themselves without external intermediation.
- Within six months of assuming office our government signed a 30-year treaty for a long-term water-sharing arrangement with the upper riparian country, India. This has created conditions for more efficient use of the water resource and construction of water management structures.
- We have achieved economic growth at close to 6 percent in the past two financial years.
- In order to improve the quality of governance, we have taken up an ambitious program of reforms. Financial sector reforms and administrative reforms are two critical areas where we have focused our attention. Privatization has also been taken up in right earnest.

Unfortunately, the consolidation of our economic efforts is threatened by the floods that we have had since July. This is the worst flood that the country has experienced in recorded history. This not only affected the normal life of the people, but also adversely affected agricultural output, industrial production, and exports. The government has undertaken a large relief operation and rehabilitation program, thanks to the assistance of all our friendly countries and international and multilateral agencies. We would need substantial assistance for rehabilitation and regeneration of the economy to recoup the output loss and sustain the high rate of growth achieved in the recent years.

Our basic strategy for coping with the exogenous shock is to stimulate economic activities and maintain the rate of growth while containing inflation. In particular, this includes maintaining fiscal balance and containing deficits; controlling public expenditure and improving its quality; maintaining an adequate international reserve; recouping output losses in agriculture and industry, especially in the exports sector; and allowing adequate imports so that an upward pressure on prices generated by a supply shock can be averted. The success of the strategy requires adequate external resource support.

It takes strong leadership, deep commitment, and courage to pursue an economic strategy based on liberalization and export-led growth in such times of crisis. Fortunately for us, Prime Minister Sheikh Hasina provides such leadership and is a beacon light for all of us. Under her leadership, the economic policies and institutional development for a strong democratic system of governance has remained on course.

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

Owen S. Arthur

I have the honor to speak on behalf of the Caribbean Community countries. I join my colleagues in expressing appreciation for the excellent arrangements, which have been made for these meetings by our institutions.

Living conditions for a substantial portion of the population of East Asia and Eastern Europe have worsened significantly since last we met in Hong Kong, and actions in a number of the major economies in Latin America to defend against the worst effects of capital movements raise the prospect of similar involuntary adverse effects on living standards in the central and southern parts of our hemisphere.

There is nothing that gives hope for short- or medium-term optimism, except that we know in general what steps need to be taken in order to prevent this continuing crisis from turning into a catastrophe. What we do not yet have is a clear sense that an appropriate program has been prepared and is being implemented.

We are very supportive of the efforts that the international financial institutions and the industrial countries have taken to assist those countries that are facing systemic risks and major liquidity difficulties. We note the speed with which substantial sums have been mobilized to attend to financial crises in the affected economies.

We will also support the extension of such rescue efforts to other economies that, in the immediate future, will face major liquidity difficulties. For this reason our region is concerned about the lack of progress toward agreement on an increase in IMF quotas, and join others in urging the United States and other members to agree to the increased quota so that the IMF's ability to respond to a renewed crisis is not jeopardized by its own precariously low liquidity position.

Commendable as these actions are, there are, however, a number of issues that we regard as critically important. First, the overriding purpose of international action at this time must be to avoid a global recession. There are sufficient parts of the world economy that are still strong enough that concerted action at expansion and reflation will prevent a slide into a global recession with its dire consequences for all of us, but especially those who trustingly followed the technical advice we have consistently been offered.

Second, the need to reform the architecture of the international monetary and financial system is accepted by us as urgent and timely, but we submit that it must include representation and participation from all of us. In this age of truly global interdependence, manner matters as much as measures. The practice and the politics of exclusion and dictation must cease. The notion of partnership that is now being promoted so strongly by the Bank and the Fund must become a reality.

We who live in very small states have a particular concern over this issue. We feel very strongly that there has been a tendency for the staff in the institutions to analyze our circumstances as if they are no different from those of large countries, with the same endowment range, production flexibility, institutional depth, and adjustment options. We feel also that we have especially been victims of a “one size fits all” approach to policy specification, implementation, and evaluation. We feel that the time is ripe for a major review of the rigid eligibility criteria for assistance and the almost theological approach to program design by the institutions, and for a greater sensitivity to the multidimensional and complicated aspects of the social and economic transformations, trade-offs, and adjustments required to translate programs into sustainable development. Above all, we share the views of those who suggest that in the past IMF and Bank programs have consistently ignored the impact of structural adjustment on the poor. The Caribbean as a whole wishes me to say that the reform of the financial architecture of the international financial institutions must treat this as one of the major deficiencies that have to be remedied.

The attention of the global community has necessarily been riveted on solving the extraordinary financial crises in Asia, Russia, and now Brazil. It is however my region’s view that preoccupation with this crisis must not divert the international financial institutions from dealing with their core functions; nor should it so extend their resources as to severely impair their own solvency and viability. It is therefore crucial that the IMF continue to successfully perform its core function of meeting the short-term liquidity requirements of countries affected by the normal and expected volatility in the international markets for goods and services, and that the World Bank stay focused on providing development finance to eradicate poverty and to uplift global economic development. These institutions should not now be transformed into institutions geared primarily at bailing out wealthy investor banks while expecting poor developing countries to live entirely at the vagaries of the market.

On a related matter, while we welcome the HIPC Initiative and note that one of our countries, Guyana, will soon be a beneficiary, we have no doubt that the overloading of this necessary initiative with excessive and unattainable conditionalities is a serious drawback that has slowed and will continue to slow implementation, and this needs to be addressed.

In our statement last year my colleague from The Bahamas pointed to the need for safeguards against the destabilizing effects of capital movements and cited a special need for safeguards on capital account liberalization, particularly as regards policy and institutional sequencing, and for technical assistance to accommodate and manage capital flows in line with our broad development objectives. I will use this occasion to reiterate the Caribbean's conviction that the liberalization of capital movements must be well planned and supported by a strong banking system and supervisory framework. Related to this, we welcome the initiatives by the Fund in the areas of improved surveillance, improving transparency, and developing international standards in the areas of monetary and fiscal policy. As far as possible, we will attempt to adhere to these standards and consider the guidelines useful as we develop institutional capacity in these important areas. We especially welcome the newly formed unit of the Bank—the Disaster Management Facility.

Even as I speak to you the special vulnerability of some of our very small states continues to be a matter of enduring financial and economic distress to these countries on a scale that is not dissimilar to that arising from damage done by volatile capital flows to some economies in Asia. I wish to highlight, in this regard, the plight facing St. Kitts and Nevis and Antigua and Barbuda arising out of the passage of the recent hurricane through the northern Caribbean. Both of these countries were still repairing damage done by the last hurricane, using loan funds from our regional development bank, when they were hit three weeks ago.

I had the honor of chairing a Commonwealth Small States Ministerial Group, which met at the highest level with officials of the Bank and Fund. Out of those meetings it was agreed that the two institutions, together with the Commonwealth Secretariat, will support a task force to undertake a detailed examination of the special circumstances facing very small economies, with a view to devising a universally acceptable vulnerability index and designing more appropriate and implementable programs that fit our special circumstances. For us, this represents a very significant step. For some time we have been articulating the need for this work and for such an approach by the Fund and the Bank. We have every expectation that on this occasion the Bank and the Fund will deliver on their promise.

The state of the world economy does not allow me to end this statement on a happy note. We in the Caribbean Community are heavily dependent on a sustained good economic performance in the rest of the world. Even before the start of the current world crisis, many of our own economies were already in crisis because of the changes to the rules of the trading game. Those economies are still in crisis and are facing the prospect of being engulfed in the larger problem. More than ever now, there is an urgent need for those who regard themselves as leaders of the world economy to demonstrate that leadership. We look also for a new special spirit of innovation and sensitivity in the management of the affairs of the Bank and the Fund. In the final analysis this will be the standard by which the Caribbean will judge the outcomes of this meeting.

Statement by the Governor of the Bank for Belgium

Jean-Jacques Viseur

We have been struck by the breadth, the contagion, and the effects of the current crisis. A concerted and cooperative strategy is therefore urgently needed. Only a forceful and expeditious strategy can calm global financial markets and improve the outlook for the global economy. Moreover, we have sound reasons for seeking to introduce a number of basic improvements into the functioning of the international monetary and financial system.

What I want to do today is to discuss some essential components of the new international architecture that the world requires in order to get back on the path to sustainable growth. However, let me begin by underscoring the urgent need to strengthen the IMF's financial resources immediately. Recent events have belied the notion that the financial markets could readily take the IMF's place in ensuring that those countries facing a serious financial crisis can be provided with the funds necessary to support their adjustment efforts and prevent the collapse of their currencies. What the recent crises have shown is that financial markets react indiscriminately. Herding behavior in the markets and the contagion effects it produces tend to exacerbate crises rather than resolve them.

Thus we see how essential it is for the international community to have an organization such as the International Monetary Fund to provide sufficient financial assistance to countries seeking to correct their macroeconomic and structural imbalances. Only forceful intervention by the IMF can restore the confidence needed to overcome the crisis. Our absolute priority today, therefore, is to ask member countries to ratify the New Arrangements to Borrow and the IMF's quota increase as quickly as possible. This is essential if the Fund is to fulfill its mandate in a world economy that is increasingly complex. The IMF's decision to finance part of the increase in its assistance to Russia last July with a loan from the Group of Ten (G-10) countries under the General Arrangements to Borrow clearly illustrates the current inadequacy of the IMF's resources. By depriving the IMF of a sufficiently large increase in its own funds, the international community would be taking risks, some of which are incalculable. To paraphrase the President of the United States, when there is a fire you do not discuss the color of the fire engine or the shape of the fireman's helmet; you give the fire department enough water to put out the fire.

Necessary Reform of the International Monetary and Financial System

I would now like to make a number of suggestions concerning the direction we should take to minimize the exposure of our economies to market fluctuations and help prevent financial crises and their effects on people. I have identified six courses of action.

Strengthening National Financial Systems

The strengthening of national financial systems is of vital importance. Contrary to what some people thought a few months ago, this applies both to the emerging economies and to the industrial countries, which must adopt stronger standards for the supervision of banks and nonbank financial institutions. The problem of offshore funds resides primarily with the industrial countries. Governments must seek appropriate means to promote these standards and, if necessary, to enforce them.

The international community must also cooperate in developing standards in other areas, such as accounting, advertising, asset valuation, bankruptcy, and corporate governance. Indeed, one of the lessons of the Asian crisis is that the Bretton Woods institutions underestimated the role of private financial institutions and business in general in the economy. There was insufficient awareness of the fact that the economic soundness of a country can be jeopardized by the speculative activities of its banks, the development of ill-conceived investment programs, and the spread of organized crime. Henceforth, the Bretton Woods institutions will not be able to ignore the risks of unfettered and uncontrolled capitalism. They will also have to encourage the adoption of standards aimed at undergirding sustainable economic activity.

Strengthening Financial Market Surveillance

It is now recognized that financial markets have become a force in their own right and go their own way in reacting to economic data and, all too often, to a country's noneconomic data. Appropriate surveillance is therefore in order.

Some months ago, this view was not shared by the entire international community. Indeed, in spite of the warning that the Mexican crisis of 1995 provided, many countries continued to ignore the negative consequences of financial globalization and the growing helplessness of nation-states overtaken by an expanding, deregulated global financial market.

The Asian crisis has helped convince the international community of the need to face the challenges of financial globalization. This is a major step forward because the risks of globalization can only be minimized in the context of a global reform strategy implemented by the organizations established for this purpose by the international community, the IMF, and the World Bank.

I do not believe that we need to contemplate establishing a new institution. On the contrary, it seems to me that what we have to do is to strengthen cooperation among international financial surveillance entities, with a view to modernizing the systems established for regulating and supervising financial institutions and markets, and adapting them to market conditions. Therefore, I propose that we take a quick look at the merits of instituting a permanent standing committee for global financial regulation, within which the IMF, the World Bank, the Basle Committee, and other international regulatory authorities could focus on stability, supervision, and systemic risks. This excellent proposal, put forward by Gordon Brown, U.K. Chancellor of the Exchequer, deserves our support.

Promoting Orderly Liberalization of Capital Movements

The Asian crisis underscores the importance of orderly and well-sequenced liberalization of movements of capital, and particularly short-term capital. Today, decision makers are increasingly realizing the need to act cautiously and sensibly. No country should be forced into immediate liberalization or made to abolish controls that are warranted. That is not a retrograde step but an acknowledgment of the need to take account of the economic, human, political, and cultural characteristics of each of the countries involved.

It is also my opinion that the IMF ought not to rule out, in principle, any future possibility of proposing certain forms of capital control, such as accompanying measures for its programs. The purpose of these controls should not be to replace stabilization measures and reforms but to enhance their effectiveness by safeguarding the financial stability necessary for the success of IMF programs. They should also help to conserve the Fund's financial resources. Recent experience has shown the limits of the effectiveness of the financial assistance which the IMF can provide to countries that are completely open to capital movements: if confidence in the financial markets is not quickly restored, this assistance serves to fuel capital flight and vanishes into thin air in just a few days. This is what happened in Russia in August. The IMF does not have unlimited resources. Market confidence is not necessarily restored as soon as an arrangement is reached with the IMF. Accordingly, it would appear that under certain circumstances, some temporary capital controls, approved by the IMF as a condition for its intervention, could help to reduce the risks posed by a sudden reversal of short-term capital flows.

Retooling the Fund

The pursuit of sound monetary, fiscal, and structural policies is no longer sufficient, in and of itself, for laying the foundations of sustainable growth. The current crisis has in fact confirmed the need for governments to be able to mobilize, at short notice, the financial resources needed to resist the contagion and withstand the pressures they may have to face in today's globalized economy.

In light of this changing environment, the international community, and the IMF in particular, must make every effort to find new instruments to provide effective assistance to countries that follow sound policies and are suddenly placed in a difficult situation because of the financial markets. The fire department needs a wide range of resources: fire engines suitable for large-scale firefighting and all the equipment necessary to fight the blaze.

President Clinton recently pointed to one possible approach. Under this approach, the IMF would aim for greater efficiency in furnishing conditional financial assistance to countries that continue to implement sound policies as they cope with a difficult international financial situation. I welcome the Interim Committee's plans to study this proposal.

I also think it would be useful to take another look at the arguments in favor of having the IMF act as lender of last resort based on the SDR. This is an approach that would perhaps maximize the effectiveness of the mechanism proposed by President Clinton.

Strengthening International Monetary Cooperation

Even though most of us recognize how difficult it is to address the challenges posed by financial globalization, my impression is that a broad consensus is rapidly emerging as to how we should proceed in order to strengthen the architecture of the international financial system.

However, I am surprised to see that the plans for the new architecture currently being discussed have not carved out a role for international monetary cooperation. In my view, it is essential to ensure that the monetary union, scheduled for January 1, 1999, will strengthen mechanisms for exchange rate surveillance, multilateral consultation, and monetary cooperation at the international level. It is thanks to these methods that monetary union is now achievable. It is an important approach to a framework for world growth. For this task, we must be able to count on assistance from the IMF. As Michel Camdessus emphasized during his opening address: "[this] will be a core task for which the Fund must prepare itself."

I also hope that, once monetary union has reached cruising speed, it will be possible to begin the debate on reforming the international monetary system. In preparation for this debate, I call upon the IMF to give serious consideration to "target zones" for the dollar, euro, and yen exchange rates. I believe that an agreement on this issue would bring more stability to the system as the markets would know what is judged to be a desirable rate.

Adoption of a Social Action Strategy

"We must go beyond financial stabilization . . . . We must focus on the social issues." James Wolfensohn, President of the World Bank, made this appeal to us in his opening address, and rightly so, because the social impact of the crisis is much more serious than we could ever imagine.

To prevent implosion in the most seriously affected countries, the World Bank must take the lead in proposing an action strategy designed, in the short term, to shield the poorest population groups from the repercussions of the crisis and, in the long run, to strengthen safety nets with a view to increasing the capacity of these countries to safeguard their peoples against economic shocks.

The Bank should also participate more actively in this strategy. To strengthen the impact of its own financial support, it must help crisis-stricken countries to reallocate their public expenditure in favor of programs that provide social support and generally improve economic and social productivity. To help set economies on these more stable foundations, the World Bank could also move toward the adoption of a code of conduct in the area of social policy which, once implemented, would more effectively protect the inhabitants of poor countries from the risks resulting from globalization.

Reaffirming the Legitimacy of the IMF

The task of promoting economic and financial stability worldwide calls for an increase in the IMF's financial resources, a strengthening of its surveillance role, and the extension of its jurisdiction to include capital movements. If the IMF is to truly fulfill the strengthened central role it is expected to play, the principles legitimizing its actions must also be reaffirmed.

The best way to proceed here is to strengthen the role of the Interim Committee. Two proposals have been put forward recently to achieve this objective. The first, advanced by Philippe Maystadt, my predecessor and former Chairman of the Interim Committee, recommends the formation of working parties that would contribute to the deliberations of the Interim Committee, and therefore the IMF, on issues relating to the international monetary system. In my view, this idea has two major advantages. First, it would allow for more direct involvement of national officials and experts in Fund activities. It would also relieve pressure on IMF staff, who cannot be expected to have all the answers. It would also enable the

Fund's member countries to play a more meaningful role in solving difficult problems.

Second, the working parties could play a greater part in reviewing issues that cannot be easily taken up by the IMF because they go beyond the scope of its activities and responsibilities, for instance. By creating a working party to study these issues, we will ensure that they cannot be overlooked. It would then be incumbent on the Interim Committee to provide the appropriate follow-up action for the working party's proposals. This process would do much to remedy the deficiencies of the current international architecture.

A second and complementary approach would be to transform the Interim Committee into a Council with decision-making power, thereby applying a provision in the Articles of Agreement of the IMF that has never been implemented. I am in favor of this idea, which is supported by my French colleague, Dominique Strauss-Kahn, as it can enhance the legitimacy of the IMF's decisions and, therefore, the effectiveness of its actions. One could therefore envisage the management and Executive Board of the IMF consulting with the Council before reaching a determination about a program whose impact clearly extends beyond the economic sphere.

Here again, the experience of the euro zone and the respective roles of the Council, Commission, and ECB in Europe are a useful example. There are situations in which management, no matter how good it may be, cannot singlehandedly be accountable for the political legitimacy of the decisions it makes. With the political influence it would carry, the Council could, under specific circumstances, enhance the political credibility of decisions, since it is true that the economic sphere is not totally separate from the affairs of state and society that politics should be primarily concerned with.

The transformation of the Interim Committee would also make it possible to strengthen the IMF's surveillance role, as its members could become more actively involved when the economic policies pursued by a member country pose a potential danger to other countries and regions in the world. In this way, the Council could play a more prominent role in the "tiered response" procedure, proposed by the Interim Committee in April 1998: in cases where the "red card" would have to be drawn on a country whose economic policy is seriously off-track, this decision could be made by the Council.

It was the prospect of nuclear power that led governments to form the UN, and the UN Security Council, in the aftermath of the war. Any such attempt to transform the Interim Committee into a Council of world economic security would be a momentous undertaking. However, I feel that it is important to envision this possibility, given that one of the important lessons of globalization is that only strong and concerted cooperation and intervention can stop or curb the domino effect of the current crises. This brings us to the realization that the reasons leading the UN Security Council to perform its current role in political and military affairs are the same reasons that have led us to entrust the Interim Committee with this fundamental role in economic and monetary affairs.

The uncontrolled development of financial markets facilitated by the liberalization of capital movements and new communication technologies is partly responsible for the magnitude of the financial crisis the world is experiencing today. However, I believe that the roots of the current crisis are not to be found solely in the financial sphere. This crisis is also a reflection of the weakness of the "political pillar" of the world economy vis-à-vis the financial markets. The weakened decision-making capacity of some governments creates systemic risks for the world's economic fortunes. It also underscores the objective limits of IMF action. When the IMF is not dealing with governments capable of shouldering their responsibilities and tackling the deep-seated problems of their economies, its recommendations, forecasts, and assistance are less effective. Thus, globalization does not only require that IMF policies be adapted to reflect the changing international environment; it also gives us a much keener sense of the responsibilities of governments. This realization is essential if the advantages to be gained from globalization are to be maximized and the attendant risks reduced.

The strengthening of "economic democracy" acts as a necessary counterweight to the market. It is clear today that there is no "invisible hand" too long constrained by policy which, if set free, would guarantee the rapid and lasting development of the world economy. The crisis bears witness to the need to "return to policy" and to the "government's regulatory role" at the national, continental, and international levels.

For it is my belief that Europe, whose characteristic emphasis on social democracy (the so-called Rhine Model) was scoffed at for so long, ought now to play a more important role in strengthening the Bretton Woods institutions.

The "European model" that we are building, without arrogance or triumphalism, is predicated upon a common economic and social framework, cooperation among states, inclusion of the social partners in economic responsibilities, burden sharing among all members of society, and multilateral surveillance. For a long time this had been viewed as a relic of economic history. Today, this market economy that couples freedom with a strengthened capacity to include the government as strategic planner and regulator can serve as a model for the entire world and as a guide for the reforms that enhance the role and effectiveness of the Bretton Woods institutions. This will help us to overcome the current crisis and get firmly back on the path to world growth.

Statement by the Governor of the Bank for Bosnia and Herzegovina

Mirsad Kurtovic

Allow me to greet you on behalf of the delegation of Bosnia and Herzegovina and to express our gratitude for the assistance that has so far been extended to our country for its reconstruction and recovery, and to speedily overcome the harsh results of the past war. The aid you have extended has not been wasted; instead, it has served as one of the major pillars for the stabilization of the conditions in the country.

The role of the World Bank and the International Monetary Fund, headed by President Wolfensohn and Managing Director Camdessus, in the reconstruction and in the stabilization of the economic situation were of decisive importance in reestablishment of macroeconomic stability in Bosnia and Herzegovina. We are very pleased that the planned reforms of the World Bank are proceeding successfully, and in our view the decentralization of the Bank is key to their success. We welcome the new initiatives, such as the Cultural Heritage Project, and we are very pleased that the World Bank will take part in the reconstruction of the Old Bridge in Mostar.

The magnitude of changes occurring in the world over the past 10 years might be compared only with the changes that took place after the second World War. It was expected that the last years of this century would go by in peace, but, sadly, it is instead ending in bloody local conflicts causing widespread human suffering and major political and economic restructuring, on the level of not only states, but also entire regions. A new balance of power and interests is developing.

In this increasingly interconnected world, the global economy faces two overwhelming problems: the financial markets' crisis in East Asia and economic distress of Russia; and the reestablishment of economic systems in post-conflict countries and countries in transition. Both sets of issues are derived from former or current political problems and global political divisions. Resolving these problems requires additional efforts and the determined involvement of a large number of countries and financial institutions. Long years of the Cold War and divisions left deep marks and sowed the seeds of adverse consequences not only for our generation, but also for those who will come after us. The people of my country had suffered the very worst of those consequences: the war and its killings, maimings, and devastation. But the horrors that befell Bosnia and Herzegovina cannot, and must not, be seen as an isolated, exceptional case, but as a phenomenon that will recur elsewhere in this troubled age.

Therefore, the present political and economic situation must be viewed integrally and as a dynamically evolving model, prone to varying degrees of radical distortion. A new economic globalization is emerging, with new, unforeseen consequences. The international community needs to be prepared to face the changes, some of them benign, but others radically adverse, which must be realistically assessed, with their effects rendered limited and countered effectively. Crisis spots are valves where political and economic failures are vented. The end of this century and the start of the next century will be marked by the struggle to anticipate and transcend crisis situations. Economically powerful countries, the World Bank, and the IMF can act in coordination to prevent crises from deepening and open perspectives of a more prosperous future, with the goal of reducing poverty worldwide. In this regard we strongly support the new initiative on creation of a post-conflict fund, which will provide a crucial facility to violence-torn countries in their hard transition to peace.

Bosnia and Herzegovina is one of the countries that continues to need such assistance from the international community. That assistance has been forthcoming, and it has given very significant results. After four donor conferences, with credits from the World Bank and numerous other financial institutions and with the considerable support of friendly countries, Bosnia and Herzegovina has come a long way on the path of its postwar recovery. Our major joint achievements include the restoration of a minimum of economic infrastructure; repairs of the large portion of the housing stock; the establishment of key institutions of the state and entities; adoption of basic elements of the legal framework; the determination of macroeconomic guidelines for development until the Year 2000; the introduction of a new common currency; fulfillment of conditions and conclusion of the IMF Stand-By Arrangement; rescheduling of the debt to the London Club; and reduction of unemployment from postwar 90 percent to its present 40–50 percent.

These significant positive results have been achieved with the assistance and support of the World Bank, the IMF, the European Union, the Office of the High Representative, the NATO-led Stabilization Force, the UN, the U.S. Treasury, and numerous other friends of Bosnia and Herzegovina, which has earned them our gratitude and profound respect.

However, alongside these positive results, we continue to face a series of difficulties. Our greatest problem is that the economic growth has been substantially below the planned level. The actual GDP per capita in Bosnia and Herzegovina in 1997 was somewhat over $600, while the current trends reveal that no major improvements can be expected in 1998.

The number of unemployed this year not only has stopped falling, but in some areas has risen owing to major refugee returns. The bulk of the international aid is directed to infrastructural and nonproducing investments, which do not lead to creation of new jobs, production of new commodities, and addition of new value. Our state borders lack most features of those in other countries; they are unregulated and porous to the illegal transit of goods. Regardless of the laws on customs and tax policy that were passed, the forecasted budget revenues cannot be collected. In order to cover budget expenditures and secure funds for debt servicing, we are still forced to borrow. This results in an increase, instead of a reduction, of net obligations of the country.

These issues and dilemmas have led us to temporarily halt our talks with the Paris Club creditors this summer. In our view, previously developed, bureaucratically formalized models of debtor relations are not automatically applicable to all cases. If the slow economic recovery in Bosnia and Herzegovina persists, the country will become unable to repay its rescheduled obligations and to take new credits, which may lead to new talks on a new round of rescheduling. We want to resume Paris Club talks as soon as possible, but we are hoping for greater understanding on the part of our creditors. Our conditions and our case are atypical and require an appropriately tailored approach. The future steps must be carefully conceived, as all positive results achieved so far may be at risk. The implementation of our crucial economic reforms and repayment of foreign debt have not enjoyed sufficient support this year, while our own capacities are nearly exhausted. A more substantial allocation of International Development Association funds is a vital precondition for the implementation of our structural adjustment process and achievement of sustainable growth.

Despite these problems, we remain determined to take all necessary measures in line with the spirit of the Dayton Agreement and to insist on its speedy and integral implementation. In the economic domain we shall focus on the following tasks:

- privatization of enterprises and banks;
- increasing foreign investment in production and creation of industrial jobs;
- preservation of stability of the domestic currency through strict adherence to the currency board arrangement of the Central Bank of Bosnia and Herzegovina;
- settlement of all the outstanding prewar obligations of Bosnia and Herzegovina within the economic capacities of the country;
- regulation of border controls and collection of essential budget revenues;
- preparation for joining the European integrative processes;
- planning for the next donor conference, with the onus on channeling the funds into productive job creation, and speedier implementation of earlier pledges; and
- speedy implementation of economic reforms, with the assistance of the World Bank and the IMF, securing additional funding with a

view to opening talks on the Enhanced Structural Adjustment Facility as soon as possible, as the implementation of the Stand-By Arrangement has proceeded with great success.

In our work we seek to ensure full transparency and create mechanisms for the prevention of corruption in Bosnia and Herzegovina. Technical assistance provided in this area by the World Bank and the IMF through their resident offices in Bosnia and Herzegovina, as well as by the Office of the High Representative and other institutions and donors, is of utmost importance to us.

Bosnia and Herzegovina is located in a region where political and economic stability has not yet been established. Events in Kosovo have two negative consequences for our country:

- A large number of refugees (an estimated 20,000) found a temporary shelter in Bosnia and Herzegovina, which creates additional problems for the country, as it lacks the resources to support them.
- The vicinity of the conflict area deters foreign investors from investing in Bosnia and Herzegovina, as they fear for the safety of their investments.

The presence of the multinational force in Bosnia and Herzegovina is important for us not only as a factor in the implementation of the military part of the Dayton Agreement, but also as a factor in risk reduction for foreign investors.

I wish to conclude by stressing one more time that the Council of Ministers and all the citizens of Bosnia and Herzegovina base our long-term economic development on our own efforts, with ever-decreasing reliance on international aid. We will continue to demonstrate the firmness of our determination in this regard, but the volume of damage inflicted by the war still requires significant foreign aid and a considerable reduction of all debts.

Statement by the Governor of the Fund for Bosnia and Herzegovina

Novak Kondic

Allow me to greet you on behalf of the Bosnia and Herzegovina delegation as well as personally and thank you for the assistance in reconstruction and development to date, and for your efforts to help us overcome the immense difficulties that the recent conflict has brought about.

The role of the World Bank and the International Monetary Fund in reconstruction and development as well as stabilization of the economic situation has been and still is in the forefront of the establishment of macroeconomic stability in Bosnia and Herzegovina. We are pleased to notice the steady progress of the World Bank-led and other reforms, which, to us, represents a successful signal for economic reconstruction.

Changes that have dominated the international scene in the past decade can only be compared with the changes following World War II. The end of this century had been anticipated to be rather peaceful, yet it brought numerous local conflicts, as well as political and economic restructuring, not only at the state level but at the regional level too. A new balance of power and interests is being established.

As an outcome of the aforementioned, the global economy currently faces two major issues: financial markets crisis in the Far East and the economic disaster in Russia; and the formation of economic systems in post-conflict and the transition countries. Both issues have derived from past and current political struggles and the global political divisions in the world. Solving them requires additional efforts and the participation of more countries and financial institutions. The long years of Cold War and global divisions left behind them numerous negative consequences not only for this generation, but also for many yet to come. Bosnia and Herzegovina and its nations felt the consequences in its worst shape, that is, through war, destruction, killing, and suffering. What happened in Bosnia and Herzegovina should not be examined as an isolated case but as an occurrence that may repeat itself in other places and times. The current political position and, in particular, the economic position must therefore be examined globally and as a dynamic model that is also subject to changes and can move radically to a greater or lesser extent. On the horizon, a new economic globalization can be seen, coupled with the new consequences of such a change.

We expect the international community to face positive as well as radically negative changes, which then must be realistically analyzed, amortized, and made less dominant. Crisis spots are the exhaust pipe through which political and economic misdeeds are being let out. The end of this century and the beginning of the new millennium will be symbolized by the struggle for an end to the crises. For economically sound states, the World Bank and the International Monetary Fund can coordinate the action to prevent the spreading of the crises and allow for a more prosperous future with an aim of reducing poverty throughout the globe. Bosnia and Herzegovina needs the assistance of the international community in order to diminish such threats. This kind of assistance has not failed us so far, and because of that, we managed major changes for better. With four successful donor conferences behind us and the World Bank loans as well as loans of other financial institutions, including the assistance of friendly countries, Bosnia and Herzegovina has walked a long way toward recovery and away from the war times. We managed to achieve the following: enabled a basic business infrastructure; repaired a large number of homes; established basic joint and entity institutions; adopted most of the legislation; set macroeconomic policy until the year 2000; introduced a new currency; fulfilled conditions for and concluded a Stand-By Arrangement with the IMF; reprogrammed the London Club debt; and reduced the postwar unemployment rate from 90 percent to the current 40–50 percent.

All these positive results came about through cooperation and assistance from the World Bank, the Fund, the European Union, the Office of the High Representative, the NATO-led Stabilization Force, the UN, the U.S. Treasury Department, and other friends of Bosnia and Herzegovina, for which we are extremely grateful, and we shall honor it.

Nevertheless, despite all the positive scores, there is a list of problems we are facing. The greatest one is the slow attainment of the planned economic growth. The current GDP level in Bosnia and Herzegovina in 1997 is just over $600 per capita, and the 1998 trends hardly promise any significant positive impact. Unemployment figures have not been falling recently, and in some areas their growth has been noticed owing to the return of refugees. New jobs are not opening, or this process simply takes too long, as most of the international support is aimed at physical infrastructure and non-job-creating investments. It does not cater to vacancies, the manufacturing sector, and new values. Despite the new customs and tariffs and fiscal legislation being adopted, projected budgetary revenues are not up to satisfactory levels. In order to cover the expenditure side, we are still forced to take new loans. This put us in a position of expanding rather than minimizing the net debt of the country.

Our discussions with the Paris Club have borne a heavy burden of such problems and dilemmas. We are of the opinion that the formerly established bureaucratic models with the indebted countries cannot be applied in each and every case. Should such slower economic recovery trends continue in Bosnia and Herzegovina, we will soon be in a position where we will be unable to service our reprogrammed external debts, not even with the World Bank. The first years of servicing the principal as well as interest may become the years of the total collapse, as we will not be able to fulfill our obligations. Our negotiations with the Paris Club and our request for the extension of the IDA funds after the year 2000 must be viewed in light of the aforementioned. Our preference is to continue the talks in Paris as soon as possible, but we ask the IMF to revise its economic forecast, coupled with more understanding of the creditors. Our situation is very atypical and requires such a treatment; all future steps must be well designed, as they may jeopardize all the positive effects we have attained to date.

Our experience of this year in implementing key reforms and servicing external debts is, unfortunately, hardly encouraging, and our resources for the purpose have been almost completely exhausted.

However, even despite the recent conflict, Bosnia and Herzegovina, composed of two entities—the Republic of Srpska and the Federation of Bosnia and Herzegovina—notices ever-improving cooperation between its entities and implementation of the Dayton Peace Accord. We shall respect all measures prescribed by the Dayton Accord and will insist on its complete and speedy implementation. In the economic sphere we shall be concentrating on the following: privatization of enterprises and banks; greater foreign direct investment presence in the manufacturing sector, and hence higher employment rates; stability of the domestic currency and strict observation of the currency board arrangements of Bosnia and Herzegovina's central bank; regulation of all prewar debts of Bosnia and Herzegovina in accordance with the economic wealth of the country; better customs control as well as other budgetary revenues; preparations for European integration processes; preparations for the forthcoming donor conference so that its proceeds can be used for employment generation as well as a timely implementation of the previously pledged means; and speedy implementation of the economic reforms with the assistance of the Bank and the Fund. Securing fresh financing and a quick transition to ESAF as the fulfillment of the IMF Stand-By Arrangement is a move in a positive direction.

Our lasting determination is to secure full transparency in our work, together with the mechanisms that will prevent corruption in Bosnia and Herzegovina. Technical assistance we are receiving from the Bank, the Fund, the Office of the High Representative, and other institutions and donors is of pivotal importance to us.

Let me conclude by echoing the views of the Bosnia and Herzegovina Council of Ministers and of all the citizens of Bosnia and Herzegovina—economic development and growth must come from within with as little external assistance as possible. Objectives presented here undoubtedly point that out, but the extent of the war damage still requires substantial international assistance as well as reduction of all debts.

Statement by the Governor of the Bank for Cambodia

Keat Chhon

I send you all warm greetings from Cambodia. I regret that I am unable to be present and participate in this historic session owing to pressing preoccupations in the country. My colleague from the National Bank, Mr. Chea Chan To, will be attending the meeting. However, through this statement, I wish to share with you some important information about Cambodia and my thoughts on some subjects of immediate concern to all of us.

The most important landmark event in Cambodia was the general elections held on July 26 this year. This was the first time in nearly four decades that such elections have been organized by Cambodians themselves under our own constitution to choose their representatives and government leaders for the next five years. This was indeed a unique and mammoth event. The entire process was ably handled by an independent and totally neutral body set up for this purpose, the National Election Committee. I am glad to report to you—and as you no doubt have heard and followed—the massive preparations for the elections took place in an orderly, fully transparent, and efficient manner with remarkable speed and success in a very short period of time. These included voter registration and verification; computerization of voter lists containing over 5.4 million voters; setting up over 11,000 polling stations; training a large number of personnel to conduct the elections; distribution of polling materials to all corners of the country using many novel and appropriate means of communications such as bullock carts, boats, elephants, aircraft, and automobiles; setting up a media center to provide full access to all information to the media; and organizing the logistical support and security for over 300 international and 20,000 national observers.

In all, 39 political parties registered for the elections. They had full and unfettered freedom in campaigning all over the country. In spite of the very divisive and disruptive nature of all such elections, especially in the context of the conflict-ridden past of Cambodia, the preelection and campaign periods were inordinately and exceptionally peaceful; even the normal crime levels register substantially lower levels. Indeed, for over six months preceding the elections, Cambodia witnessed a calm and stability not known for a long time in recent history.

The elections were held in a most peaceful atmosphere commented upon in glowing terms by all international and national observers; over 90 percent of the electorate cast their votes, an unprecedented turnout, itself a testimony to the freedom of expression and confidence in the secrecy of the process. The subsequent counting of votes was done in an open and transparent manner. These led to the international and national observers groups unequivocally declaring that the elections were held in a “free and fair manner” and that the results “credibly” reflected the will of the Cambodian people. Even a longtime critic of Cambodia was overwhelmed by what he saw and observed that a “miracle on the Mekong” had taken place.

But, alas, after the elections were held in such a peaceful and orderly manner, the two main opposition parties, which together could not gain a majority of seats in the 122-member National Assembly, started protesting with fabricated and far-fetched complaints about nonexistent fraud and irregularities. Instead of following legally established procedures for pressing their complaints, they also started street-based demonstrations and agitations in some parts of the capital city, Phnom Penh, adding each day to their list of imaginary complaints and raising the level of fiery rhetoric. When these led to the capital city witnessing the brink of anarchy and racist attacks on innocent people, the government had to intervene to stop the demonstrations. Interestingly, the head of the Joint International Observers Group declared recently that the National Election Committee could have looked into the opposition complaints in a more transparent manner, but noted that such inquiries would not have resulted in any different conclusions.

After the demonstrations were put down, the opposition heeded the advice of the King and agreed to negotiations for the future of the country. Now the new members of the National Assembly have been sworn in, and serious negotiations are under way for the formation of a new government. Meanwhile, the previous government continues as a caretaker government.

On behalf of the Royal Government of Cambodia, and indeed, on behalf of all Cambodians, I would like to take this opportunity to thank all the countries and organizations that gave us immense financial and technical assistance, as well as moral support, in conducting these unprecedented general elections in the country and in being open-minded and fair in assessing the processes and results in a neutral manner.

I have taken considerable space in mentioning these details because the elections were the most important watershed in Cambodia's progress toward peace and reconciliation; it is also necessary to set right the many distorted views parlayed in various sections of the media. With the elections, Cambodia has taken a bold and decisive step in its long journey toward democratization of its polity, from bullets to ballots and away from the long-drawn conflicts of the past.

I would now like to turn to the economic situation in the country. As is well known and recorded, we had taken very important, determined, and strategic measures to reorient our economic systems to be led by private-sector-driven growth based on market openness. We also revamped our budget systems and procedures and deliberately withstood pressures for bank financing. We set in place institutions and systems to actively and aggressively promote private investment and to divest the state gradually of the production and distribution work it was doing earlier. We were assisted substantially by large and generous external assistance, both financial and technical. All these factors led to notable positive results. For three years in succession, 1994–96, the economy registered impressive growth of about 7 percent a year; inflation was contained at a single-digit level; the national currency enjoyed stability vis-à-vis the U.S. dollar under clear market conditions of trading; and our per capita income doubled from $130 in 1990 to $292 in 1996, in spite of a population growth of about 3 percent a year.

However, in 1997, while we were poised for a further growth of nearly 7 percent, we were subjected to the combined effects of two coincidentally concurrent shocks in July 1997; one was the internal instability imposed on us, of which I spoke at the previous Annual Meetings; the other was the financial cataclysm enveloping all of Southeast Asia like an uncontrolled forest fire, and now becoming contagious to other parts of the world. Still, in 1997, our growth was positive at 2 percent, inflation was kept at one digit, and our currency did not depreciate as deeply as other nearby currencies. We managed not only to not resort to bank financing of our budget but, indeed, also to show a small surplus on the current side of the budget for the first time in decades. Driven by a growing export-oriented garment manufacturing industry, we also added to our net foreign reserves. Otherwise during this period, our tourism revenues declined substantially, actual private investment slowed, and employment generation was sluggish.

In 1998, the prospects were bright in the beginning, but the effects of the regional crisis are beginning to take their toll. We do not expect a very healthy growth this year, although our decline will be far less than that being felt by neighboring countries. With the conduct of the elections in July this year and the expected formation of the new government soon, the internal factors responsible for our economic woes have all but disappeared and investor confidence is increasing. However, we are not and cannot remain immune from the regional crisis sweeping through our entire neighborhood.

I would like to take this opportunity to commend and congratulate the IMF and the World Bank in rushing with massive funds and technical assistance to the rescue of the countries in East Asia that were affected by the financial cataclysm beginning last year. It is clear to everyone now that this cataclysm has yet to fully bottom out, although there are already incipient signs of stabilization and possible recovery in some countries. Cambodia has only been affected indirectly by the cataclysm and will continue to adjust itself.

The regional crisis has given us a unique opportunity to reexamine the core contours and contents of the established development paradigm. Already, important voices have been raised, saying that the relevance of some of our assumptions and standard remedial measures for such crises need to be reexamined and that new institutional mechanisms should be devised to better regulate capricious short-term capital flows that destabilize economies to the detriment of the people at large, who are the target of all our developmental efforts. I would like to add my voice to these calls for radical rethinking of development priorities and mechanisms. Past theories and strategies have helped us a great deal, but progress poses new problems and challenges calling for new or redesigned tools. The globalized economy needs global thinking and responses. However in doing so, we have to take into consideration the fact that we are living in the real world of diversity. My sense is that the free market capitalism is not just an economic system. It is also conditioned by perceptions and cultural values that shape the forms of competition and of conducting business as well as emphasize the legitimacy of profit and the values of freedom. These matters are not universally shared. Countries over the world have organized their economic systems around different values and politics.

Therefore, I would also ask that the World Bank, which is quickly transforming itself into an institution for "Knowledge for Development," take the lead in this debate and organize study groups. As we step into a new uncharted century in less than 15 months, we undoubtedly need a fresh road map for development, with clearer markers, signposts, and pointers that take into account all differences and specificities of all countries and regions. Fresh and innovative thinking and ideas, branching away from past notions, are imminently necessary. Established international institutions should be prepared for metamorphosis for an orderly world in the twenty-first century. Let us all ask the World Bank to do an in-depth study on this matter. Let us decide now to make this subject our centerpiece of discussions next year.

Both the IMF and the World Bank have been of great assistance to Cambodia in the past few years. Sadly, the IMF withdrew its program of assistance and, in our view in somewhat of an inordinate rush, even closed down its field presence in Cambodia last year. But we have continued to receive full support and assistance from the World Bank, including an able field representation. With the formation of the new government in Cambodia in the coming weeks, we look forward to the IMF returning to help us and to the World Bank enhancing and increasing its continuing support. I would urge and plead, through this august assembly, to the leadership and staff of the two institutions, that they consider Cambodia as in its infant stage of growth in economic terms and provide nurture and nourishment, not adult doses of inhibiting and sometimes infeasible conditions.

Last but not least, I would like to congratulate Mr. Wolfensohn for his bold and clear call last year for better public governance in all countries and for his transparent efforts to remove suspicion of wrongdoing on the part of his own staff. I have brought to the Bank's attention some cases where we witnessed a lack of transparency on the part of the Bank staff and will continue to do so.

In conclusion, let me once again thank the international institutions and bilateral partners of Cambodia for their continued support and assistance in our efforts to ameliorate the social and economic lives of our people. I look forward to a substantive debate in the coming months on reshaping our instruments for international economic cooperation for the twenty-first century based on the valuable lessons arising from the crisis seen in East Asia and elsewhere in the past year.

STATEMENT BY THE GOVERNOR OF THE FUND FOR CAMBODIA

Chea Chan To

I am very pleased to be here today to represent the Kingdom of Cambodia and the National Bank of Cambodia at this annual assembly of top-level macroeconomic and monetary policymakers of the world financial community. I bring to you all greetings from the National Bank and the people of Cambodia. I would like straightaway to express my deepest gratitude for the excellent assistance provided so far by both the IMF and the World Bank in financial, technical, and advisory terms.

As you know, the July 26 election in Cambodia went off smoothly. Moreover, the whole international community has recognized that the election process has been fair, true, and credible. Therefore, I am now confident in the future and I am sure the international community can have faith in Cambodia, since political and social stability are essential and vital for economic growth and prosperity. In a transparent, clear, and fully free manner, a new National Assembly has been elected and convened on September 24. A new government should soon be installed and empowered to act. Thus, the letter and spirit of our constitution, in the framework of the 1991 Paris accords, have been fully and fairly observed and preserved.

Given that now normalcy, stability, and freedom are here, it is important that our external partners resume their support for the rehabilitation and development programs in the country, which are designed to serve the people. I would like to stress that Cambodia's authorities pledge to take into account IMF recommendations regarding notably structural reforms. But Cambodia needs time. Indeed, it can be noticed that, since the general election held in May 1993, Cambodia has already achieved considerable progress in the development of its economy. However, the recent political environment, coupled with the impact of the currency and financial crisis, has led to a marked deterioration in economic conditions for 1997. Thus economic growth rebounded strongly from 4 percent in 1994 to 7.5 percent in 1995 and 7 percent in 1996, but the above-mentioned circumstances have initiated a marked deterioration in economic conditions witnessed by a lower rate of growth of output of 2 percent for 1997. For 1998, the economy is expected to be recovering to some extent with a projected real growth of GDP of 3.5 percent. This slowdown can be explained by the weakening in domestic demand, mainly consumption and investment of both the private and public sectors. Nevertheless, the National Bank of Cambodia, despite recent difficulties, maintains a strong willingness to contain inflation and to maintain the value of domestic currency in order to create a situation inductive to the restoration of the public confidence in the economy.

In this respect, I would like to emphasize that:

- On our small scale, we are convinced that the freedom to save and invest provides the conditions for sustained growth and consequently for greater wealth, for both providers and recipients of capital flows.
- We are also convinced of the importance of strengthening the safety of our banking sector and the reliability of our prudential control system. To that effect, we have implemented a program of training in order to enhance the capability of our inspectors in the area of on-site supervision.
- We are totally decided to encourage foreign direct investment because foreign direct investment makes an essential contribution to growth and balance of payments stability. For this purpose, we are determined to improve the legal environment of our country.

I would like to emphasize that Cambodia has now demonstrated, on the occasion of its recent elections, its openness and its transparency. Obviously Cambodia has not yet reached perfection in the area of rule of law. But the fact that Cambodia is emerging from long years of internally and externally imposed instability, and that its human resources are still of great weakness, must be taken into account and explains to a large extent that Cambodia once again needs time and understanding. Therefore, we are now hoping that assistance provided by both the IMF and the World Bank will continue and even be strengthened in the near future.

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

James Peterson

The current crisis in emerging markets has touched each and every one of our economies, and the risks facing the world economy are real and imminent. However, the situation can be managed if we act appropriately. In this regard, it is clear that the first line of defense against market turmoil has to be a strong macroeconomic and structural policy foundation.

The Canadian Picture

Canada has adopted a policy framework that has put public finances on a sound basis and kept inflation low. In doing so, we have laid the foundation for sustained economic growth and improved job creation, while at the same time limiting the disruptive effects of international financial turbulence.

Only five years ago, the fiscal deficit stood at $42 billion. The government said it would bring this deficit down steadily each and every year, and it did—not only meeting, but improving upon, every target that was set. The deficit has now been eliminated.

Equally important, the debt-to-GDP ratio is now on a clear downward track. The government's Debt Reduction Plan will ensure that it will continue to fall. Under the Plan, the government is committed to balanced budget targets, backed by prudent economic assumptions and a $3 billion Contingency Reserve. In the years when the Contingency Reserve is not required, it will be applied to reducing the debt.

The Prime Minister has recently announced that for the current year (1998–99) any surplus that would accrue on the basis of existing programs and policies will be fully applied to the debt—in other words, the government will not be undertaking any new expenditures, beyond what has already been budgeted for. This will allow us to accelerate the reduction in our debt-to-GDP ratio.

The improvement in the fiscal situation that has been achieved contributed to stronger economic growth by reducing uncertainty and boosting confidence. The Canadian economy put in a solid performance heading into early 1998, growing by 3.7 percent in 1997 and expanding at a similarly strong pace in the first quarter of 1998. Growth slowed to 1.8 percent in the second quarter, although, as in the United States, much of the decline reflected reduced inventory investment rather than lower final demand. Moreover, part of this weakness is explained by the General Motors strike, which had a major impact on automotive production in Canada and the United States. Nevertheless, by managing our affairs consistently and prudently, Canada's policy plan has, and will continue, to provide a strong basis for continued healthy growth.

However, there is little doubt that the unsettled international environment has increased the downside risks to the Canadian economic outlook. Indeed, Canada has been hit by the shock wave emanating from the emerging markets. The Canadian dollar fell from US$0.72 last September to about US$0.65 at the end of September 1998—in part, because foreign exchange markets apparently perceive us to be much more dependent on commodity exports than in fact we are. Whatever the reason, the impact of the recent global financial turmoil would surely have been much greater if we were still running massive deficits, if our reliance on foreign lenders were still increasing, or if our interest rates were sky high and rising.

The World Economy and Canada's Six-Point Plan

In the current global economic environment, there are a number of urgent policy priorities. These include helping to sustain global growth in the current crisis, responding to the needs of the poorest and most vulnerable, and reducing the risk of and improving our capacity to manage future financial crises. In this regard, Canada has put forward a six-point program that addresses both the short-term problems raised by the current financial crisis, as well as the longer-term, underlying issues associated with open capital markets. The program includes:

- closer attention by the central banks of the developed world to the risk of a further slowdown in the global economy and readiness to act quickly to support continuing, sustainable growth, both at home and abroad;
- a renewed commitment by the emerging market economies to implement the appropriate macroeconomic and structural policies;
- greater global attention to the needs of the very poorest countries;
- endorsement of measures to strengthen financial sector supervision through peer review;
- development of a practical guide or "road map" for safe capital liberalization; and
- agreement to work urgently toward a better mechanism to involve private-sector investors in the resolution of financial crises, such as a standstill on debt repayment.

The first three points relate to what should be done to deal with the current financial crisis and lay the foundations for a return to sustained economic growth. With respect to the first component of the plan, global growth prospects clearly have worsened, and the balance of risks now lies firmly on the downside. Group of Seven central banks need to recognize this important fact. Indeed, the presumption should be that central banks will reduce interest rates now if they can; if they cannot, they should be prepared to act quickly if the risks start to be realized and economic activity slows. National authorities in emerging market economies must also ensure that they are taking appropriate action to restore stability and growth. Without good domestic policy on their part, no amount of effort by the international community is going to prevent periodic financial problems or promote sustainable growth.

While we have all felt the effects of the financial turmoil, the fragile economies of the world's poorest countries have been particularly hard hit, through the indirect effects of lower commodity prices and falling export demand. It is clear that we cannot ignore the real consequences for people in any crisis assistance or response package. The social implications have to be recognized up front and on a par with the economic response. The Bank, and particularly IDA, with its strong focus on poverty reduction, must lead in directly addressing concerns about the social impacts of financial crises. The IDA's assistance at this time, particularly in such areas as primary health and education, is critical especially in light of the widely shared international consensus to reduce poverty by one-half by the year 2015. Now, more than ever, it is important to ensure that IDA can fulfill its mandate to assist the world's most disadvantaged. To do so, sufficient resources must be available to carry out this challenge.

The fourth and fifth components of the plan aim to reduce the likelihood of future crises, while the goal of the sixth component is to make it easier to deal with crises that do arise. Recent events have highlighted the importance of strong financial systems. At the spring Interim and Development Committee meetings, Canada proposed a peer review process to help encourage the promotion and implementation of appropriate oversight and financial sector development. Over the summer, we have been discussing this issue at the G-7, Group of Twenty-Two (G-22) and Asia-Pacific Economic Cooperation (APEC) fora and we are happy to note that the Fund and the Bank have found these proposals useful. IMF and World Bank officials have put forward specific proposals to incorporate a peer-based surveillance mechanism in their work. This initiative will not prevent all chance of future crisis. However, greater information, increased transparency, and a more sophisticated exchange of expertise will mean that financial crises in the future should happen less often and be better contained.

The financial crises in Asia and Russia have also exposed some of the risks associated with open capital regimes. Our understanding of how best to manage the process of capital account liberalization is inadequate. Last May in Kananaskis, APEC Finance Ministers agreed to ask the IMF and the World Bank to study the experiences of countries that have undertaken capital market liberalization. Events since Kananaskis have only reinforced the urgency of such work. As a result, I believe the Fund and the Bank should assign a high priority to this project and report back to us in April 1999. The objective will be to codify best practice and provide policymakers in developing countries with a road map that will take them to the ultimate destination of liberalized capital account transactions—without suffering a deadly financial accident on the way.

Of course, these measures by themselves will not enable us to prevent every crisis. As a result, the international community, including the private sector, must be prepared to respond quickly and effectively when crisis resolution is required. The response should involve equitable burden sharing and limit moral hazard. In this regard, it may be necessary to consider appropriate standstill mechanisms. Ideally, a standstill would be engineered in a way that would not involve a default. What is needed is a contract-friendly cooling-off period. One possibility would be for IMF members to agree to legislate an "emergency standstill clause" in all cross-border financial contracts. Such a clause would be invoked only in extreme circumstances, where the withdrawal of short-term finance was severely hampering the restoration of financial stability. Given the complicated nature of this issue, the Fund could help our understanding by organizing a seminar with the private sector to try to forge a consensus on a range of measures that might be adopted.

Fund-Bank Collaboration

Achieving the goals of this plan will require greater and more effective collaboration between the Bank and the Fund. In this regard, recent experience suggests four key areas for particular emphasis:

- Cooperation between the Bank and the Fund needs to be strengthened at all levels. It is not enough for the heads of the two institutions to meet together periodically—staff across the institutions must also be engaged in this effort. Better sharing of data and analysis, joint preparation of policy papers, and more missions representing both institutions are a good start to making this happen. Better cooperation and coordination between the two institutions are particularly important in crisis response situations in order to ensure that shorter-term emergency financing does not undermine longer-term development work.
- Policy advice to member countries must be effectively coordinated. This does not mean that debate on policy issues should be discouraged; in fact, I would argue the opposite. However, discussions between the two institutions must begin earlier, as programs are being developed, not when they are completed. And a genuine effort must be made to work out any differences in advance. In effect, it means the IMF and World Bank must be open and transparent partners in the policymaking processes. We have to "walk the talk" of transparency and good governance in our own institutions.
- A clearer delineation of the roles and responsibilities of each institution is helpful. Generally speaking, the Fund will exercise surveillance over macroeconomic and stabilization policies, while the Bank will promote overall economic development and structural and sectoral reforms. But we know that, in practice, overlap is sometimes unavoidable. In this respect, the proposed Liaison Committee, drawing on expertise from both the Bank and the Fund, is a step in the right direction. The challenge will be for the Committee to provide open and objective guidance, based on what is in the best interest of the country, rather than in the interests of any one institution.
- Collaboration on financial sector reforms should be a priority. Strengthening surveillance of financial sector regulatory and supervisory regimes is a key area where the Bank and the Fund have indicated they will work together. Canada strongly welcomes these actions.

Partnership

Of course, the Bretton Woods institutions cannot work in isolation. They must cooperate more broadly with other international organizations, including the regional banks and the World Trade Organization, as well as the private sector, bilateral donors, and developing country partners. The strong emphasis by the Bank on the theme of partnership is particularly welcome; the trick will be to put partnerships into action on as broad a front as possible.

Let me conclude by noting that the global nature of the current crisis requires global solutions. Only by working together can we bring a degree of stability to international financial markets and aspire to return the world economy to a buoyant and sustainable growth path. While the outlook may look daunting, I am confident that, through imagination and flexibility, we will ultimately be able to meet this challenge.

Statement by the Governor of the Fund for the People's Republic of China

Dai Xianglong

This Annual Meeting is conducted at a most critical moment, when the global economy and financial markets are facing enormous challenges that could affect world economic growth and financial development. While many crisis-hit countries in Asia are making progress in economic adjustments, the severe economic recessions experienced by these countries have, unfortunately, been far beyond our initial expectations. The recent Russian crisis has aggravated the turbulence in global financial markets, and Latin America is now also under financial strain. These financial crises, and the economic depression in some developed countries, are increasingly affecting North America and Europe. A global recession threatens. We must take the opportunity of this meeting to call for concerted actions to stem the crisis from further enlarging or spreading, and to assist the affected countries in reviving their economies. It should be the top priority of this meeting to consider how to strengthen the architecture of the international monetary system to effectively prevent and solve financial crises.

It is our view that the main cause of the crisis is that international cooperation and the evolution of the international financial system lag far behind the economic globalization and financial integration process, and the speed of their liberalization exceeded the pace of enhancing the economic management abilities of the crisis-hit countries. Since the early 1990s, the faster pace of globalization has led to substantially increased capital flows, which have been beneficial to the world economy. Nevertheless, more and more capital flows and foreign exchange transactions have become dissociated from production and trade activities.

Speculators with huge sums of capital are able to take large leveraged positions to control and manipulate markets for profit, accentuating market volatility. However, the international community has not come to a consensus on effective mechanisms for the monitoring and containment of risks brought about by volatile capital flows. As the developed countries push forward the liberalization of trade and capital flows, they aim at achieving a superior position in the world capital markets for themselves, thus failing to consider the impact of premature liberalization on the economic security and social stability of the countries concerned.

Capital account convertibility should be carried out in an orderly and well-sequenced manner. The member countries are entitled to determine measures to manage capital flows in consideration of their specific circumstances and stages of economic development. China's experience with foreign exchange management system reform has shown that if a country lacks the conditions for full convertibility while still in need of capital inflows, it can keep foreign debts at a reasonable size with well-structured maturities through appropriate foreign exchange management. This practice not only can sustain economic development, but also can protect foreign investors' interests by reducing financial risks.

The major industrial countries should take primary responsibility for maintaining the stability of the international financial system and the steady growth of the world economy. Under the current circumstances, the fiscal and monetary policy stance of the major industrial countries should be conducive to maintaining world economic growth. They should strengthen the coordination of interest rate and exchange rate policies to stabilize international financial markets. In addition, they should significantly increase their financial assistance to crisis-affected countries, expand their imports from those countries, and guard against trade protectionism. At the same time, those huge speculative funds should be well regulated by the authorities. The involvement of the private sector in preventing and resolving financial crises is necessary. International financial institutions and developed countries should encourage and support the private sector debt restructuring until debt relief is attained. It is our firm belief that by strengthening coordination and mutual support within the Asian region, the economic and financial development in Asia is bound to stabilize gradually.

The Fund and the Bank have made great efforts in preventing and solving financial crises in some regions and countries, maintaining the stability of the international monetary system, and assisting member countries to develop in a sustainable manner. We hope that the Fund and other international financial institutions can play a more effective role in resolving financial crises. By encouraging the deregulation and liberalization of domestic markets, they should be vigilant to the risks posed by international capital flows; when designing and implementing assistance programs, they should pay more attention to the specific circumstances of the countries concerned. The Fund should formulate and establish a mechanism for monitoring short-term capital flows and the movements of speculative capital. We support the strengthening of the Fund's early warning system on the basis of enhanced information disclosure and transparency. We hope that the Eleventh General Quota increase and the NAB can take effect as soon as possible. We think that, if necessary, the General Arrangements to Borrow (GAB) should be reactivated. We continue to support the implementation of ESAF-supported programs and the HIPC Initiative.

In the face of the Asian crisis and the turbulence in international financial markets, the Chinese government has taken a highly responsible stance. First, China has sustained its rapid economic growth. Against the backdrop of a substantial slowdown of exports to some Asian countries and the severe flooding, we have adopted a vigorous fiscal policy and increased money supply appropriately to expand infrastructure investment. We are confident that the annual growth rate in 1998 will reach 8 percent.

Second, China has maintained the stability of the remnimbi exchange rate. Since the foreign exchange system reform in 1994, China has adopted a managed floating exchange rate regime. We have provided financial assistance to crisis-stricken countries through IMF programs and bilateral arrangements since the eruption of the Asian crisis. In the interests of regional stability and growth, we have maintained the stability of remnimbi and pursued a nondevaluation policy. Although the pressures and risks are still increasing, there remains a solid ground for the stability of the remnimbi.

Third, China has taken measures to expedite structural reforms and to prevent and reduce financial risks. The Chinese government has resolutely pressed ahead with the administrative structural reform and successfully achieved the target of retrenching 50 percent of employees in the ministries of the State Council. The state-owned enterprise reform is proceeding progressively as planned. Breakthroughs have been achieved in financial reform. The provincial branches of the central bank will be phased out and a number of interprovincial branches will be set up by the end of this year, with the aim of increasing the central bank's independence in carrying out its functions. The Ministry of Finance has issued special state bonds of RMB 270 billion and the funds raised have been used to recapitalize the state-owned commercial banks. An internationally accepted loan classification system is being implemented throughout the country. The central bank has shut down some small and medium-sized financial institutions that had been noncompliant or insolvent. China's financial industry has been developing steadily in the process of reform.

It has been 15 months since Hong Kong returned to China. Over the period, the Hong Kong Special Administrative Region (SAR) authorities have made great efforts in facilitating the economic adjustment and maintaining the prosperity in Hong Kong SAR. Facing the challenges posed by the East Asian financial crisis, the Hong Kong SAR government has successfully maintained the stability of the financial markets. According to the principles of "one country, two systems" and "Hong Kong people ruling Hong Kong, high degree of autonomy," the central government of China supports the Hong Kong SAR's efforts in maintaining the prosperity and stability of Hong Kong and their measures to safeguard the linked exchange rate regime.

Lastly, on the Bank's pricing policy, it is highly regrettable that at a time of substantial reductions in capital inflows to developing countries, the Bank management has increased the price of its loans against the will of all borrowing members. This departs from the Bank's long-standing principle of pricing loans according to the development purpose, thus sending the wrong signal to international capital markets, harming its good relations with borrowing members, and eventually hurting its own reputation. We urge that the Bank management take measures to offset the negative effects caused by the price increase.

To conclude, I believe that the international community is able to cope with the challenges in the process of globalization and that the crisis-hit regions and countries will overcome the temporary difficulties they now face and achieve a solid and sustainable growth.

I look forward to the constructive fruits of this meeting.

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

Borislav Skegro

It is a great pleasure and privilege to address the 1998 Annual Meetings of the Boards of Governors of the World Bank and the IMF. I would like to take the opportunity of this Annual Meeting to warmly thank Mr. Wolfensohn and Mr. Camdessus for the past year. Allow me first to refer briefly to the economic developments and achievements in the Republic of Croatia. Since the introduction of the stabilization program in October 1993, the Republic of Croatia has achieved remarkable fundamental macroeconomic stability and has increased GDP growth with low inflation—one of the lowest levels in the region. Economic recovery continued from 1994 and consumer spending stimulated growth with import expansion. The postwar reconstruction took off as real GDP grew to 6 percent. Croatia has become one of the successful cases among the transition economies in emerging Europe, with inflation between 3 and 4 percent and above-average GDP growth.

Turning briefly to the fiscal performance, I am happy to report that in 1998 Croatia is expected to be one of the few emerging European countries to achieve a balanced budget. Budget revenues doubled in the first half of 1998 with the introduction of a 22 percent value-added tax on all products and services. The new tax system has also improved collection, especially by introducing heavy fines for delays in tax payment. The statistics on the government budget indicate a surplus of 2.5 percent of the total budget, which will be used for the financing of reconstruction needs, major infrastructure projects, and the covering of social expenditures.

A few words about monetary policy: Croatia's domestic currency, the Croatian kuna, has been floating and it has shown remarkable stability both in nominal and in real terms. Monetary policy remains tight and the first half of 1998 was marked by a decrease in the money supply and high growth of total bank credits. At the end of 1997, net foreign assets of the central bank amounted to more than 95 percent of its total balance sheet. Presently, the amount of international reserves is about $2.55 billion, which surpasses the money supply. The current level of Croatian National Bank foreign exchange reserves covers 2.7 months of imports of goods and services. It is expected that the foreign exchange reserves will continue to grow in the future.

I would briefly like to touch more upon one issue—balance of payments. The 1997 current account deficit of around 12.6 percent of the estimated GDP has been the main topic of numerous discussions. However, it is important to note that this deficit was a result of the increase of both imports and exports. Nevertheless, we should keep in mind that in conditions of relatively low domestic savings, real growth could be financed only from foreign sources.

At the end of the short overview of Croatian achievements it is worth mentioning that Croatia has regularized all its relations with foreign creditors, including the Paris and London Clubs, and that the foreign debt remained at about 28 percent of GDP at the end of 1997. Since the beginning of 1997, the Republic of Croatia received an investment grade rating (from Moody's, Standard & Poor's, and Fitch IBCA) which was instrumental in a successful approach to the international financial markets. By mid-1998, all agencies confirmed the credit rating. Internationalization and the drive to the foreign capital markets can also be seen at the corporate level.

After 6.5 percent GDP growth in real terms in 1997, economic activity in Croatia in 1998 is estimated to be 7 percent by the end of the year. While progress with structural reform has been made in several areas, further efforts are needed in key areas (notably improving banking system operations, privatization of state-owned banks and large public enterprises, and completing trade reform consistent with the requirements for accession to the WTO).

How do we see future developments? The Croatian industry and tourism are picking up and also export industries are becoming a driving force of economic growth. Still, we are well aware of the challenges facing the Croatian economy. There is much yet to be done in the restructuring and privatization of the large public sector economy, as well as in the banking sector. The Croatian economy is small, and future development is possible through the adjustment of an open and export-oriented policy. In the longer term, the potential of the Croatian economy lies in its integration into the European Union and other institutions such as the WTO and NATO.

I would emphasize the importance of foreign market access and the process of integration into the international economy. But the high level of financial integration in the world today—and extremely dynamic capital flows—means that all countries have to be much more careful. Over the past 18 months, events in Asia and elsewhere (including most recently Russia) have vividly illustrated the consequences of the combination of a weak financial system and inadequate macroeconomic policies.

What does globalization imply for small member countries of the Bretton Woods institutions like Croatia? We are fully aware that we are a part of the global family, and we accept that there is really no other viable alternative but for us to find our niche in the world marketplace. But every country has its own specific features. Therefore, because of our size and location, it is unlikely that we can compete for private capital flows in unrealistic high amounts, so we would rely also on official capital flows from the international financial institutions. At the same time, the needs of other developing countries, particularly the transition economies (especially Central and Eastern European economies), are substantially larger than ours. I therefore fully share the concern that the expected financial requirements of members may impose severe strains on the future resources of the Fund and the Bank.

I feel that one of the major challenges that faces the Fund and the Bank today is to ensure that the allocation of funds and the modalities of their facilities are constantly aligned to the real needs of member countries. This would go a long way to lifting the effectiveness of the twin institutions and improving the economic well-being of its members. The special needs of member countries like those in transition and the heavily indebted call for bold and innovative approaches. I am therefore pleased to support the continuation of the ESAF as a permanent feature of the Fund's facilities. In my view, the temporary and monetary features of the Fund's mandate are not being compromised by ESAF. The Fund' s role is constantly being frustrated by the lack of adjustment and reforms that are prerequisites to the achievement of the Fund's wider and, I believe, more strategic objectives of growth and prosperity. I therefore propose the Bank and the Fund to work very closely together to address the special structural needs of member countries.

There is also a need to expand the flow of resources from the World Bank. The level of the World Bank lending remains almost unchanged, and this despite the fact that a large number of new members have joined the Bank in the past few years. The Bank has the headroom necessary for new lending. There is a case for increasing the flow of lending from the World Bank to support critical areas, including especially infrastructure. Private sector and commercial banks have to take a larger share as well. This is an area in which we are trying to increase both public and private investment. I believe the World Bank can help support this effort through a combination of direct lending and play a catalytic role in using its other instruments to facilitate new investments (e.g., partial guarantees).

I have already welcomed the World Bank role in the joint initiative to alleviate the debt problems of the heavily indebted poor countries. However, I should like to emphasize the paramount importance of preserving the financial integrity and preferred creditor status of multilateral creditors. The present debt initiative must therefore be a one-time initiative, with clear boundaries.

The IMF initiative to strengthen the architecture of the international monetary system has been perceived as the right response to current challenges. In this regard, let me emphasize that Croatia, although a small country, has been determined to become a productive participant/player in the global economy. It is not just about its support for the increase in quotas as to ensure resources for proper functioning of the IMF, or acceptance of the amendment of the IMF Articles of Agreement regarding SDR allocation to achieve greater equity, or regular provision of the data to the Fund.

It is also, among other things, about Croatia's effort to enhance effective financial surveillance, as well as the accountability and credibility of its macroeconomic policies. In this regard, I must stress how greatly Croatia has benefited from the IMF's technical assistance and close dialogue with Fund staff in this year.

Let me just mention close collaboration on improving the quality of a database in view of our commitment to the Special Data Dissemination Standard. Recognizing the key importance of transparency, the Croatian authorities also have consented to publishing of the Public Information Notice for Croatia this year. We are also carefully following other IMF initiatives, for example, its work on liberalization of capital movements. In this respect, we welcome the IMF approach to orderly liberalization.

Allow me to make a final comment that the cooperation between the Bank and the Fund with the Republic of Croatia is good and supportive, and we are sure that further Bank and Fund activities in the Republic of Croatia will be performed in accordance with our positive and cooperative achievements. I conclude by wishing the Bank and the Fund well in their next year of operation.

Statement by the Governor of the Bank for Cyprus

Christodoulos Christodoulou

It is again an honor for me to address these Annual Meetings of the Governors of the International Monetary Fund and the World Bank Group.

At this time last year in Hong Kong, most Governors said that they were encouraged by the world economic outlook, despite the financial crises affecting a number of Southeast Asian countries. Even though the global economy has recorded modest economic growth and relatively low inflation over the past 12 months, many more economies have displayed weaknesses and have been afflicted by financial crises. Moreover, the real and contagious negative effects of financial crises in Southeast Asia have intensified and spread, and have affected many other emerging and neighboring markets. Thus, we are far more concerned about prospects for the world economy and now worry that we may be in the midst of a sharp global economic slowdown.

What can be done by governments, regional organizations, and international financial institutions to boost global economic growth and trade and to contain the financial pressures on the more fragile economies? Should the European central banks and central banks in other major industrial countries lower interest rates? Should developing countries partly reintroduce capital controls to insulate their economies from destabilizing capital flows? Should the IMF be provided with substantially increased financial resources so that it can play a more effective role in preventing and containing financial crises? As the discussions at the Interim and Development Committee meetings in recent days have illustrated, conflicting considerations make it difficult to give clear-cut answers to these questions. However, one thing is clear that there must not be competitive currency devaluations and a retreat toward protectionism, policies that proved to be self-defeating in the 1930s.

The ability with which the IMF and the World Bank can respond adequately and quickly to financial crises and their economic and social repercussions needs to be enhanced. Unfortunately, the prospects that the 45 percent increase in IMF capital under the Eleventh Quota Review will be agreed by early 1999 are still uncertain at a time when the IMF's financial resources are seriously depleted. In these circumstances, consideration must be given to making alternative arrangements to enhance IMF resources.

Although the focus of financial market participants and the media have been on the problems of the so-called emerging market countries and their implications for the global economy, we must continue to assess whether the problems of the least-developed countries are being adequately dealt with. In this vein, I note that there has been further progress in implementing the HIPC debt initiative since the 1997 meetings of the

Commonwealth Finance Ministers and IMF and World Bank Governors. However, there is a need for additional actions to improve the speed, breadth, and eventual effective impact of the initiative, and for adequate funding so that eligible countries can achieve debt sustainability as envisaged by the HIPC Initiative.

In Cyprus, the economy to date seems to have been little affected by the Asian financial crisis and its repercussions. Real GDP has been increasing at an annual rate of around 4.5 percent and the rate of inflation is in the 2.0 percent to 2.5 percent range. The economic fundamentals of Cyprus are relatively strong, and Cyprus is meeting four of the five convergence criteria of the Maastricht Treaty.

However, the unfavorable experiences of a number of countries in liberalizing their external capital accounts and financial markets too quickly have made the Cyprus authorities cautious in freeing up our markets to harmonize our policies with those of European Union countries. In this connection, we have welcomed the advice of the IMF staff and Executive Directors at the recent consultation discussions, urging a carefully sequenced approach in liberalizing our external capital account. Successful liberalization of interest rates and the domestic and external financial markets requires also that the macroeconomic balances are in place. Accordingly, in the coming weeks a package of taxation and government expenditure-restraint measures aimed at fiscal consolidation will be considered by our House of Representatives, while a bill proposing the removal of the interest rate ceiling will also be tabled at the House.

In concluding, I would stress that Cyprus will continue to support and cooperate with the Fund and the Bank in their efforts to foster a stable economic and financial environment conducive to growth and development. Also, I would like to take this opportunity to thank the management and staffs of the Fund and the Bank for the constructive advice they have rendered to Cyprus.

STATEMENT BY THE GOVERNOR OF THE BANK FOR ESTONIA

Mart Opmann

I have the honor of addressing this meeting on behalf of the three Baltic countries—Latvia, Lithuania, and Estonia. I also would like to extend our welcome to the new member of the World Bank—the Republic of Palau.

The current Annual Meetings take place in the midst of widespread economic and financial crisis, and many ideas and proposals about the future of the Bank and the Fund have been presented. Three Baltic economies, also touched by the global processes, of course look forward to the quickly restored stability in the global financial system. However, we also hope that the specific concerns of the small countries will not be left unnoticed because of global problems.

I would like to stress, however, that the present crisis has not affected the macroeconomic stability of the Baltic countries, owing to the tight fiscal policies of our governments. All three countries have experienced high growth rates during the past two years. Particularly, in Estonia, GDP grew by 11.4 percent in 1997. Concerned by these signs of overheating, the Estonian government and the central bank have implemented strong measures to reduce public expenditures. The Estonian government has targeted fiscal surpluses in 1997 and 1998 and transferred the surplus to the Stabilization Reserve, which is expected to grow up to 3 percent of GDP by the end of this year. Implemented measures have reduced the current account deficit, lowered credit expansion, and decreased inflation.

Latvia is planning a financially balanced government budget for the third consecutive year. Lithuania's deficit has been reduced, and the country will balance its budget in 1999. Latvia and Lithuania's inflation rates have reached the annual level of 4 to 5 percent. All the Baltic countries target 5 percent to 7 percent level sustainable growth over the medium term.

The Baltic countries have followed with concern the crisis in Russia. We believe that the World Bank and the IMF could play a significant role in helping Russia to overcome instability and keep the country on the track of democratic reforms. We believe that the experience of the Central and Eastern European countries in transition could be utilized by the Bank in this process. We welcome the intended closer cooperation between the World Bank and IMF to fulfill their important mission to strengthen financial and economical stability in the world.

Estonia was included in the list of countries to start the EU membership negotiations this spring. We hope and predict that Latvia and Lithuania will also join these negotiations in the nearest future. In this context, we welcome the Memorandum of Understanding between the World Bank, the European Commission, and the European Bank for Reconstruction and Development. The memorandum aims at enhancing the effectiveness of assistance to the EU applicant countries, and we are now looking forward to practical implementation of this document.

The challenges of the EU accession process also influence our borrowing priorities from the World Bank and other international financial institutions, particularly for the infrastructure and environment sectors, even though the Estonian government has not borrowed for two years. Latvia and Lithuania are also intending to borrow for social sector and rural development projects, in support of respective government reform programs.

In this context, I would like to comment on the Bank's new income policies. The approved package for short- and long-term improvement of income dynamics will increase the costs for the Bank's borrowers. To relieve the Bank's operational costs, the Baltic countries are ready to support various ways to contribute for nonlending services. At the same time, we share the view that emergency lending should neither impair borrowing terms for the Bank's "ordinary" borrowers nor affect the institution's creditworthiness. It appears to us that emergency lending is more of a responsibility of the IDA and the IMF than of the IBRD. We encourage the Board and the management to look for balanced solutions to meeting the Bank's development goals as well as its clients' interests.

Statement by the Governor of the Bank for Ethiopia

Sufian Ahmed

It is my privilege to address this meeting on behalf of my fellow governors in the African Caucus. It is my hope that the spirit of cooperation that has been exercised by the international community during the recent past will help us during the deliberations in arriving at solutions to many of the challenges confronting the world economy. As I have already circulated my detailed statement, I shall restrict myself to a few comments on the global economy, and on issues relating to Africa, highlighting the progress we have made and outlining an agenda for the future in the context of a new partnership with the international community, particularly the Bretton Woods institutions.

In the past year, the world economy has been characterized mainly by a succession of financial crises in Southeast Asia and in a number of other emerging markets. However, Africa has not escaped the contagion effects. Countries in the region have experienced a sharp decline in commodity prices, a reversal in net capital inflows, and a deterioration in international competitiveness, among others. The present circumstances complicate the task of economic reform and adjustment in Africa, especially the large number of countries facing an unsustainable debt burden.

These current developments have sounded a wake-up call to the risks of rapid globalization of financial markets and the importance of concerted action by the international community to contain the crisis. For the immediate future, the countries directly affected, as well as other emerging economies, must continue the process of deep-rooted reforms, focusing on stabilizing the financial sector, together with credible fiscal and monetary policies. At the same time, the advanced economies must focus on implementing policies that are supportive of global economic growth. On our part, our countries are continuing the process of structural reform and remain committed to the pursuit of sound and transparent economic management. However, we need increased support from the Bretton Woods institutions and the donor community to reinforce our efforts to combat poverty.

The international community must take decisive action to strengthen the architecture of the international monetary system. In this connection, we welcome the efforts being undertaken by the IMF and others to reduce the risk of disruptive shifts in market sentiment, as well as the risk of contagion. We also support the emerging consensus that private financial institutions must play a more active role in helping to ensure the stability of the international financial system, through orderly debt workout based on the principle of equitable burden sharing. Meanwhile, efforts to promote international capital flows should proceed cautiously, taking into account the specific circumstances of each country and ensuring that weaknesses in specific areas of an economy are not exacerbated when capital controls are removed.

Africa is a continent of many opportunities. The commitment of countries in the region to economic reform is now firmly rooted. Sound fiscal and monetary policies, economic liberalization, and good governance are the pillars on which the new African economy is being constructed. According to the Fund's May 1998 *World Economic Outlook*, there is evidence that we are making progress: 36 countries recorded growth of 3 percent or more in 1997, compared with 18 in 1992, and there is cautious optimism for the medium term; average inflation has fallen sharply from 36 percent in 1994 to almost 11 percent in 1997 and is projected to fall below the average for developing countries as a whole; public sector finances are much improved in most countries; monetary aggregates generally reflected a conservative policy stance; and reserves have more than doubled in the past five years. However, because we are starting from a low base, many of our countries continue to face widespread poverty. In this connection, the role of the private sector cannot be over-emphasized. In addition, every effort must be made to improve Africa's share of foreign direct investment.

Macroeconomic stability is a necessary condition for making Africa an attractive place for investment. However, looking forward also requires emphasis on a more robust strategy with a longer-term horizon. Such a strategy must contain the following elements, among others:

- Increased investment in basic infrastructure and human resource development must be a priority. Both the public and private sectors should play their respective roles in this endeavor.

- Taking into account the regional economic integration strategy of the Abuja Treaty establishing the African Economic Community, we pledge stronger efforts toward regional integration in order to increase market size and promote Africa's integration into global economy. Africa's declining share in global trade suggests that we are losing the battle. We believe much would be gained if the international community, particularly the Bretton Woods institutions, would undertake cooperative programs with existing regional institutions.
- It is crucial that the international community support Africa's Capacity Building Initiative, for which a business plan has been completed after extensive consultations with relevant partners. This would give confidence to investors and ensure greater efficiency in public administration.
- The enhancement of domestic resource mobilization is closely tied to Africa's need for increased investment. In this regard, we need help in developing domestic financial markets, extending financial services to the rural areas, reforming the banking system, and improving government revenue.

It is also important to emphasize the need for commencement of viable development and reconstruction programs in countries that are now emerging from situations of conflict. We should explore innovative ways of reducing the debt burden of these countries, including those with substantial arrears to multilateral institutions, as part of the early process of helping these countries rebuild their economies.

Africa is aware that its economic strategy must be underpinned by a stable sociopolitical environment. The efforts that African countries are making to improve transparency in government operations and to encourage political pluralism owe much to this awareness. The progress being made in this regard would benefit from adjustment programs that are more carefully tailored to the environment in which they are to be implemented, paying particular attention to well-designed social safety nets. The burden of adjustment and reform cannot be ignored if countries are to sustain the social consensus during periods of major adjustment. An important step toward making reform programs more acceptable to the local constituency is to have a new partnership among donors, the multilateral institutions, and the countries in need of assistance that supports increased domestic ownership of such programs.

The new partnership must also seek to match the level of development assistance to Africa with the strengthening of the reform effort that is evident in many countries. It is disappointing that net official development assistance to Africa in 1997 was negative, and this trend is expected to continue at least until 1999. Timely and adequate financing from the donor community will help our countries increase investment in infrastructure, in health, and in human resource development, all of which make a direct contribution to the expansion of the private sector.

The inadequacy of concessional financing for African countries is also an issue requiring the attention of the Fund and the World Bank. We must express our profound disappointment that, as of now, financing for the interim ESAF and the HIPC Initiative has not been secured. We urge the international community and the Executive Board of the Fund to consider all options to bring this matter to a successful conclusion, including the sale of a portion of the Fund's gold. With regard to the World Bank Group, we welcome the ongoing negotiations for the twelfth replenishment of IDA resources and, as in the case of ESAF, look forward to their successful completion.

For a large number of African countries, there is an urgent need for significant debt relief. A heavy external debt overhang is a major obstacle to growth and development. This is why we attach considerable importance to the implementation of the HIPC Initiative and are encouraged that, since our last meeting, some of our countries have been put on the track toward receiving debt relief under this initiative. We urge the international community to quicken the pace of qualifying other eligible countries, because the timing of debt relief can make the critical difference as to whether a country can sustain economic reform while taking steps to address in a meaningful way the all-important question of widespread poverty. In addition, we would like to see greater consideration given to human development indicators, to the fiscal burden of debt, and debt sustainability factors other than the standard ratios currently being applied. Also, there should be much greater acknowledgment of the need to advance the completion point.

While there are good reasons to require a solid track record of reform in order to qualify for debt relief under the HIPC Initiative, it is important to approach the matter with pragmatism, bearing in mind the different circumstances that influence both a country's adjustment strategy as well as the speed of adjustment and reform. We urge the Bretton Woods institutions to continue their efforts to persuade other creditors to meet their equitable burden sharing responsibilities in terms of the HIPC Initiative. In addition, the international community should continue to make efforts to address the debt problem facing all African countries.

In conclusion, we in Africa believe that we have reached a new threshold in our development experience. Since our social and political systems are changing to facilitate better governance and ownership of programs, we believe there is now a stronger basis for promoting accelerated growth and development. We invite the international community, especially the Bretton Woods institutions, to join us in implementing Africa's economic agenda in the spirit of an enhanced partnership.

STATEMENT BY THE GOVERNOR OF THE BANK FOR FIJI

James Ah Koy

It is an honor to attend the fifty-third joint Annual Meetings of the Boards of Governors of the International Monetary Fund and the World Bank Group. May I take this opportunity to congratulate you, Mr. Wolfgang Ruttenstorfer, on your selection as Chairman for this year's meetings. I join other Governors in welcoming the Republic of Palau to the membership of the Fund and the Bank. I also wish to congratulate the President of the United States, Mr. Bill Clinton, for his excellent address, which has provided us with an appropriate backdrop to our discussions at these Annual Meetings.

When we last met in Hong Kong, the lessons from the Mexican crisis were still being consolidated, and the turmoil in Southeast Asia was considered by many analysts, including those in the Bretton Woods institutions, to be short-lived, with its effects confined mainly to the region. However, the Asian crisis, contrary to earlier estimates, continued to deepen and its impact is now global. In recent months, the market reforms in Eastern Europe, particularly in Russia, have reached a critical phase. The Japanese economy remains in recession. A few countries in South America are showing signs of serious weaknesses. World trade is beginning to fall. In summary, the prospects for the world economy have worsened substantially over the past year, and there is a real danger of a global economic crisis.

At this critical juncture of the global economy, the world desperately needs economic leadership and direction. Who can and should take up this role? We all recognize that the problems that we now face are different from those that the world faced at the postwar period and at the time that the Bretton Woods institutions were established. At the heart of these modern-day problems are the cyclical effects of large outflows of capital, resulting in the contraction of domestic liquidity and immense pressures on exchange rates. The severe instabilities of international financial markets have led to a sharp deterioration in real incomes, a heavy loss of jobs, and unbearable strains on domestic financial systems. Moreover, there has been a dismal failure to localize the impact of these turmoils and a gross underestimation of their ramifications and their intensity. While market integration and liberalization have created opportunities for growth and development, they have also created risks that need to be understood and carefully managed.

Inevitably, the developed countries must lead the world out of this difficult period. On a country basis, the world will no doubt continue to look to the United States for support given its well-balanced economic performance without inflationary pressures and low unemployment. It is also encouraging to see the strong growth prospects in Europe. The fundamental strength in the economies of industrial countries, particularly the United States and Europe, will provide the much-needed foundation for changing the present gloomy world economic prospects.

The continuing economic leadership of the industrial countries hinges critically on their keeping inflation in check. While the global efforts to keep inflation low are commendable, we collectively, of course, need to persevere with policies aimed at achieving fiscal and monetary stability. These policies must continue to be aimed primarily at reducing budget deficits to allow world interest rates to come down and help resuscitate economic growth in member countries around the world. In addition, the role of the Word Trade Organization in compliance and problem resolution is important to keep world trade at an even keel. Lastly, the developing countries must show leadership in their individual economies and continue to press on with country-specific reforms that encourage trade creation through greater competitiveness. Under this unstable and unpredictable environment, it is crucial that the Fund and the Bank provide the strong leadership required at the multilateral level to restore confidence and stability. These modern-day problems require a new approach. We are, of course, encouraged by the momentum to find a new world financial architecture. However, in our search for the fit-outs of this new architecture, I urge the Fund and the Bank to give adequate consideration to pragmatism and sovereign ownership of reforms to help minimize, in an optimal fashion, the risks that are associated with their programs of integration and liberalization.

The traditional roles of the Bank and the Fund are obviously under scrutiny in this new global environment, and I support the call for a review of these roles, particularly those aimed at strengthening the supervision and monitoring of the international financial system. I am, however, not convinced that there are fundamental flaws in the policies per se. What is more obvious to me is that we must find solutions in the implementation of these policies to adequately address, in a timely fashion, market sentiments that do not truly reflect the economic fundamentals of member countries.

While we must search for a solution and do it very quickly, one aspect is clear—we must provide the Fund and the Bank with adequate resources to enable them to effectively undertake their responsibilities under the new architecture. The need for these financial resources is urgent and immediate. Indeed, the confidence of the marketplace in the ability of the Fund and the Bank to adequately deal with financial crisis hinges on the availability of these resources. The Managing Director of the Fund and the President of the Bank have clearly emphasized the serious constraint that tight liquidity has on their ability to meet the challenges of an integrated global economy. We, therefore, support the increase in the Fund's quota and call on member countries that may not have done so to meet their obligations on the replenishment of the International Development Association resources. In this regard, I am extremely encouraged by the commitment of the President of the United States to obtain the approval of Congress for the funding of the Fund and the Bank.

The issue of capital account liberalization plays a central focus in the discussions on the new financial architecture. It is important that we clearly rededicate our political will toward capital account liberalization. However, in so doing, we must also keep in mind our recent experiences. While long-term capital flows bring major benefits to member countries, volatile short-term speculative capital flows, particularly those that are driven by the "herd" mentality, will continue to present a challenge to emerging markets. Critical questions must be resolved about the proper sequencing of reforms, the need for strong supporting institutional and regulatory policies, and the relative efficiency of financial market processes. In many small developing economies, financial markets are underdeveloped, and the regulatory and prudential systems are still being built. In these instances, these systems would be ill-equipped to handle large and volatile capital flows.

The solution to maintaining stability is not to avoid reforms but rather to better synchronize them to the absorptive capacity of individual member countries. In my view, the best way to minimize the associated risks of capital flows in developing countries is to foster an orderly liberalization of capital movements in line with the strength and reforms of domestic financial markets. For many developing countries like Fiji, exchange controls have served us well, although this protection has not been without costs. For us, it is a question of balance—weighing the costs of financial stability against the possibility of lower investment and growth. Under conditions that are currently prevailing in the world marketplace, it appears prudent that these existing controls be cautiously reviewed as the domestic financial markets grow in depth and sophistication.

I fully support the policy of transparency and accountability to help market participants make sound economic judgments rather than psychological decisions. I therefore welcome initiatives that the Bank and the Fund have taken in this regard, including the data dissemination standards and the release of Public Information Notices. But our experience has shown that, irrespective of the volume of information that is made available to the markets, we cannot avoid the herd mentality. Unfortunately, this is the reality of the situation, but I do not think it should make us any less transparent about the need to open up our policy processes for public scrutiny.

It is obvious that the costs of the crisis have been particularly heavy on the most vulnerable members of the Bank and the Fund. Most of these countries are already burdened by debt. Their poverty levels are some of the highest in the world. Many of these countries are undertaking reforms to free themselves from the vicious circle of debt and lack of growth. The current crisis means they have to double their efforts if they are to go back to a sustainable path of recovery. I, therefore, support the sentiments expressed in support of the continuation of the ESAF and urge the speedy implementation of the HIPC Initiative. On this point, let me reiterate our continuing call for some incentives to be granted to small developing countries, like Fiji, that have been prudent and responsible in fulfilling their debt obligations through proper economic and financial management.

We, in small island economies, clearly appreciate that the only way to survive the pressures of globalization and liberalization is to be competitive. I am happy to report that Fiji is taking the necessary steps to pursue this objective. We are transforming our policies and structures to support more market-based, outward-oriented, and private-sector-led growth. With the assistance of the Bank and the Fund, we are developing the capital market and strengthening our regulation and supervisory skills and systems. Of course, we realize that much more needs to be done to guarantee Fiji's future in this new and fragile environment. In this difficult endeavor, Fiji will continue to look to the Fund and the Bank for assistance in developing our infrastructure, training our human capital, strengthening the capacities of our key institutions, and formulating prudent and proactive economic policies.

I conclude by thanking the Bank and the Fund for their past and ongoing assistance and support for Fiji and the region. I wish the Bank and the Fund well in their next year of operation.

Statement by the Governor of the Fund for Finland

Matti Vanhala

I am honored to address this meeting on behalf of the Baltic countries: Estonia, Latvia, and Lithuania; the Nordic countries: Denmark, Iceland, Norway, Sweden, and, of course, my own country, Finland. First of all, I wish to join my colleagues in welcoming the Republic of Palau as a new member.

We have, in recent months, encountered increasing economic uncertainty and market turmoil that we did not foresee a year ago. What started out as a local financial crisis in Southeast Asia turned into a contagion, shaking investor confidence not only in Asia, but in all emerging markets, and bringing elements of uncertainty into the robust economies of Europe and the United States. The outlook for the world economy in 1999 has weakened, as the potential for broader and deeper downturn is being recognized. Even in the best of scenarios, we shall have to live with tension in the global economy and in particular in world financial markets. This meeting provides a well-timed opportunity for the international community to review the challenges, and the strategies to meet them.

One of the most significant institutional changes in international monetary arrangements ever—the launch of Europe's single currency—will coincide with the current period of turbulence and uncertainty in the world. The European Central Bank will assume responsibility for the euro. It will define its policies and its international role, including its relationships with multilateral institutions, among them the IMF. The emergence of the euro zone as an area of monetary stability, with the euro as a key international currency, will make a major contribution to the international economy.

Crisis and contagion during the past 12 months have demonstrated how interdependent economies have become. Economic prospects for Asian countries at the center of the crisis will depend critically on the external environment, in particular on Japan as the second largest economy in the world. A resumption of solid growth in domestic demand in Japan is the key to recovery in Southeast Asia. Persistent stagnation in Japan will increase the ultimate real costs for Japan, and for the rest of the world. There is a need for Japan to succeed in breaking the prevailing impasse, rebuilding confidence, and reflating the economy. A resolute restructuring of the banking sector is necessary.

The situation in Russia is of a different nature, but equally serious. Persistent difficulties in the implementation of fiscal consolidation and market reform progressively undermined what had been achieved, namely a stable ruble and low inflation. The current Russian situation is an illustration of what happens when confidence in economic policy and in money collapses altogether. We see a dangerous, rapid deterioration of economic conditions. The overwhelming priority for the Russian authorities now is to halt the destructive downward spiral. The first requirement is that the Russian government gain the political backing, and the credibility needed, to enact legislation and to devise and implement programs. Close, continuous contact between the Fund and the Russian authorities is needed, but the key to stabilization lies with the Russian authorities. There is a role for the international community to consider financial support for Russia, once the necessary steps for sustained stabilization and reform have been taken.

The Russian crisis, with its turbulence and spillover effects, will no doubt put pressure on the neighboring Baltic markets. The Baltic countries, seeking integration into the European economic community, as well as a diversification of their economic relations, have weathered recent turbulence quite well. This must be attributed in large part to their prudent fiscal and monetary policies, and their focus on strengthening the banking system and developing the private sector. They will continue to follow the solid and strict macroeconomic policies that now shield them against contagion.

There is a debate on the mandate and the role of the IMF. Work is progressing, in the Fund and elsewhere, on blueprints for a strengthened architecture of the international monetary system. If there is an early lesson from the crises, it is the need for preventive safeguards in the global financial system. There is a need for improved surveillance techniques, with the focus broadened to capital flows and the health of the financial systems in member countries. In a strategy for fostering stronger financial systems, international principles and good practices for sound banking are necessary.

The Fund has already adopted important new policies on increased transparency and openness. We should develop further ways of sharing information with actors in the market as regards data, economic policy formulation, and actual performance.

Transparency on the part of the Fund should involve greater openness on its own policy advice to members. This is a sensitive aspect of the bilateral relationship between the Fund and its members, but today, in any serious preventive approach to crisis management, such a change must be considered.

Another priority is finding ways to involve the private sector in official efforts to prevent and resolve financial crises. There is a legitimate public concern about the moral hazard created by the Fund and other public bodies engaging in so-called bailouts. We must devise procedures to bind creditors in, rather than bail them out. Orderly mechanisms for settling and restructuring debts are needed.

The Fund is the forum where we can discuss the problem issues of the global monetary system. It is the only organization with a truly global membership and a mandate for surveillance and policy advice. The IMF is needed as a catalyst for solutions in crisis situations. Above all, it is needed for the prevention of such situations. In the light of the experience that has accumulated in the past five years, it appears appropriate that the emphasis of the Fund's contribution be shifted toward stricter policy advice and conditions, and away from financing.

Nevertheless, the IMF cannot perform a central role in the prevention and management of crises unless it has adequate resources. It is a matter of grave concern that the IMF's usable funds have dropped to a level that leaves little room to respond to systemic risks in the world economy. It is critical that the increased level of Fund quotas agreed under the Eleventh General Review of Quotas becomes effective as soon as possible. Completion of the adherence process for the NAB would be a complement.

High on our agenda is also the integration of the poorest countries into the global economy. Considerable progress has been made in implementing the HIPC Initiative during the past two years. However, further progress is needed. At the same time, evaluation should continue, so that the resources released by debt relief are used wisely. Debt relief without true adjustment and reform would be wasted. Now there is a need to refocus on the efforts to secure adequate financing for the Fund's ESAF and the HIPC Initiative. Financing should be based on the principle of fair burden sharing, with a special responsibility for major economies.

Capital flows are straining the international monetary system. The topic of capital account liberalization is on our agenda. The current world economic situation has brought forward arguments for temporary controls on short-term capital movements as a remedy in times of crisis. It has been argued that controls provide breathing space.

We would consider the imposition of currency controls a risky strategy—usually not effective even in the short term, and certainly ineffective and detrimental in the long term. Any country that decides to integrate itself into the world economy through increased foreign trade, and by recourse to foreign savings in the financing of its development effort, will face open markets for goods and capital and, indeed, will need open markets. We believe in an orderly and well-sequenced liberalization of capital accounts. Obviously, capital account liberalization should take place in the context of a strong domestic stabilization policy and, whenever needed, reforms that strengthen the macroeconomic framework. Moreover, efficient financial supervision should be in place. The Fund can best promote capital account liberalization through advocacy and jurisdiction, supporting the former with the strength of the latter.

The search for a new global financial architecture should not be pursued by individual international organizations in isolation. In this respect, and taking into account the respective roles of the two Bretton Woods institutions, I welcome the review of the collaborative experience between the World Bank and the Fund in strengthening financial systems.

Statement by the Alternate Governor of the Fund for France

Jean-Claude Trichet

This meeting comes at a time when the economic and financial context is worrisome. Since our last meeting in Hong Kong one year ago, financial instability has spread throughout a large part of Asia and beyond, striking many regions around the world in one way or another.

The crisis took on a new dimension this summer. The difficulties facing a number of emerging countries and the exposure of financial institutions in the industrial countries to market risk or to the risks of hedge funds, for example, have led to a heightened sense of financial insecurity.

This situation cannot be blamed solely on economic policy errors, although there is no denying that errors have been made in some cases. Nor can it be blamed on the actions of the international financial institutions. Rather, we need to take a look at the international financial and monetary system as a whole, with a clear head and setting aside dogma. We must face the reality of a world economy that is more diverse, more open, and far more complex than it was 50 years ago when the Bretton Woods institutions were created. This crisis does not call into question the usefulness of these institutions—quite the contrary. It is the dialogue between the industrial and emerging countries that is inadequate. It is market infrastructures and their regulation that are visibly dysfunctional. The international community must assume more responsibility for organizing the system. In this, the Bretton Woods institutions are the tool of choice, and therefore their role should be expanded.

An event of far-reaching scope for the international monetary system will take place at year-end, namely the introduction of the single European currency, the euro. Meeting the prerequisites for the euro's complete success will make the euro zone a pole of stability and prosperity. As such, the euro should contribute to a more balanced international environment. Indeed, given the globalized nature of the economic and financial world, Europe ought not to give the impression that it is solely concerned about its own internal integration process. It is paying close attention to developments in the world economy and the international financial markets. This is even more valid in the current situation.

We must take care not to let this troubling economic and financial situation distract us from providing assistance to the poorest countries. It is our responsibility to continue to support the developing countries steadfastly and purposefully. Above all, this support should translate into backing for the International Monetary Fund by financing the Enhanced Structural Adjustment Facility, and for the World Bank and regional development banks by adequately replenishing the African Development Fund and the International Development Association. Steadfastness in the continued implementation of the debt initiative for the heavily indebted poor countries is also crucial. Last, France welcomes the initial steps taken to enhance our capacity to respond to the problems of the post-conflict countries, which should enable us to take better account of their individual situations on a case-by-case basis.

France is convinced that Europe can contribute to the improvement of the monetary and financial system. For this reason, we have recently put forward 12 proposals, which we felt we should discuss first with our European partners. We found that our views were widely shared and that the proposals gave rise to constructive debate at the international level, as evidenced by the meetings of the past few days, especially those of the Interim Committee. I will not go over here all the ideas that France has put forward, but I do wish to underscore certain points.

Strengthen Institutional Management

The legitimacy of the IMF—cornerstone of the system—is conferred solely by the support of its shareholders, the member countries, which alone are accountable for the general policy of the institution in the face of public opinion. This is why the IMF's resources and political legitimacy must be strengthened. Therefore, it seems that strengthening the "government" of the international financial institutions is essential. The Governors must play a more active and consistent role in a body that represents the diversity of countries involved in international financial trade. This is why France defends the principle of changing the Interim Committee into a Council, as the Fund's Articles of Agreement in fact provide for.

Of course, in France's view, it would be wholly beneficial if the Development Committee were to move in the same direction. The World Bank President must submit proposals to us so that the ministers can take decisions on all development issues. In fact, I believe that we can improve the coordination between the Interim Committee and the Development Committee to reflect the complementarity between the Fund and the Bank.

Ensure the Soundness and Transparency of the Financial Markets

Overhauling the international monetary and financial system also requires the introduction of stronger regulations to ensure that the markets function better and to promote growth that is more socially equitable. I am pleased with the work in progress on transparency of public authorities and international institutions. But I wish to emphasize that private sector transparency is also crucially important for smooth functioning of the markets. This is particularly true of the financial sector, which must learn to better evaluate the risks it is taking by making more prudent use of the existing data, and which must also learn to apply the principle of transparency to its own activities, particularly vis-à-vis the supervisory and monetary authorities. The G-7, the G-10, and the Interim Committee in the past few days have adopted new guidelines in this area. This is a very important step, and we must now proceed to quickly assess the modalities for implementing these guidelines in the forums concerned.

To ensure financial stability, it is also important to strengthen the financial infrastructure of the emerging countries. This is an area in which it would be worthwhile to strengthen cooperation between the two Bretton Woods institutions. The proposed Liaison Committee between the Bank and the Fund on the financial sector seems to me to be one approach to achieving the requisite operational cooperation between the two institutions. This cooperation must be ongoing.

Implement the Orderly and Gradual Liberalization of Capital Flows

The process of liberalizing capital should be orderly and gradual and should follow—not precede—the establishment of sound financial infrastructures.

Involve the Private Sector in Crisis Resolution

Last, our crisis-management tools should be improved. Crisis management should involve the private sector, which should participate financially, in a spirit of partnership. Therefore, it would be desirable to ensure greater solidarity of bond creditors at the outset, through provisions governing international securities or, better still, appropriate legislation in the principal international financial centers. The concept of creditor committees, involving the IMF, the national authorities, and, if appropriate, the Paris Club, is an interesting starting point for fostering cooperation in crisis resolution.

Clearly, these proposals by no means answer all the questions facing us. For example, we must also consider the international monetary system in order to determine how the coexistence of large, integrated monetary groupings and smaller, more open economies with diversified trading structures can best be organized, in a context of stability.

In this new international environment in the making, European monetary union must be a stable pole. Last year I assured you that I was certain that monetary union would move forward in accordance with the criteria and timetable established in the Maastricht Treaty. Looking back, it is difficult to understand why there was still so much skepticism one year ago. Today, the unswerving determination of European authorities to implement the single currency and the progress made toward convergence have prepared us for this historic moment.

However, five prerequisites must continue to be met in order for the euro to be a complete success and for that success to contribute toward greater international equilibrium. What are these five prerequisites that must be met to ensure the success of the euro?

- First, a serious and credible monetary policy underpinned by an independent European System of Central Banks. If the euro is to be an effective monetary instrument, it must inspire confidence in the 290 million Europeans in the euro zone and in non-Europeans as well. It must be at least as good a store of value as the franc and the other leading European currencies. In this way, the European economy will be given the best financial environment possible for sound growth that generates lasting employment.
- Second, adherence to the provisions of the Treaty and the fiscal guidelines of the Stability and Growth Pact. Closer coordination of fiscal policies and vigilant peer surveillance in the informal Council of Eleven—the Euro-11—and the ECOFIN Council, comprising finance ministers of all 15 member states, will be essential if there is to be a balanced policy mix in the zone as a whole. In addition, meeting the medium-term objective of fiscal quasi-equilibrium or fiscal surplus holds the key to achieving a collective approach to

“lean-cow” economic cycles and enabling individual countries to withstand any asymmetric shocks.

- Third, the implementation of structural reforms throughout Europe. Some outside observers have recently criticized the Europeans for moving ahead with the euro when, according to these observers, the more important priority would have been to complete the structural reforms necessary to achieve more vigorous job creation. Far from being incompatible with structural reform, however, the euro actually complements such reform, because, in the first instance, the euro per se represents a major structural reform for all goods, services, and capital markets. It will also encourage greater coordination among the structural policies of member states (education, training, etc.): the Luxembourg European Council explicitly referred to structural policies as one of the areas requiring enhanced coordination of the economic policies of the 11 and of the 15 European states.
- Fourth, the emphasis which Europe’s economic decision makers will be placing upon competitiveness in their analysis of national performance. Each economy will have to be especially vigilant in monitoring such indicators of competitiveness as changes in the unit costs of production the regulatory and fiscal environment and, more generally, in ensuring a climate conducive to dynamic business performance.
- Last but not least, the ownership of the euro by all economic transactors. For this reason, our message to economic transactors and businesses in particular can be summed up quite simply as follows: “The introduction of the euro is not a tactical move but a strategic requirement.” It is not simply a question of replacing one currency with another and rewriting some software; all corporate behaviors and functions—in industry, commerce, finance, etc.—must be reexamined to determine what strategic changes they may need to undergo.

Under these conditions, the economy of the euro zone will be able to fully contribute to greater monetary and financial stability and, thereby, to world growth. We are seeing encouraging developments as regards domestic demand growth in continental Europe. A flexible and well-organized transition to the euro over the next three months is one means of building the confidence necessary for the expansion of domestic demand and specifically of investment, and hence for growth and efforts to combat unemployment.

This smooth transition to the euro also requires the convergence of interest rates in the zone with the prevailing rates in the economies with the strongest and most creditable domestic currencies, particularly the franc. This will lead to substantially lower short-term rates in a number of European countries. These interest-rate reductions have already begun, and the economies in question, together, represent just over one-third of the gross domestic product of the euro zone.

The present state of international financial instability should not make us lose sight of development and aid issues critical to the poorest countries. Some poor countries are experiencing high growth despite the sharp downturn in the international environment. This is particularly the case with sub-Saharan Africa, whose growth rates are currently the highest in the world. This is the result of their efforts and justifies our support, but poverty remains endemic and the recovery of real economic activity is still all too uncertain. The developed countries must steadfastly support the development of poor countries. They have a human, social, and political responsibility toward the poor countries, to enable as many of them as possible to attain an acceptable standard of living. They also have an economic interest in doing so, because world growth cannot be sustained unless the developing countries experience real progress.

To that end, the developed countries must support a number of different measures.

- It is essential to concentrate official assistance on key development priorities and provide development banks with resources for their work. Official assistance should meet basic needs in developing countries: consolidating the role of government in creating the conditions for private sector development; facilitating the population's access to credit; helping to diversify economies; and developing infrastructure and basic services, especially in the areas of health and education. The World Bank and regional development banks play a central role in poor countries. Adequate replenishment of the concessional resources of the African Development Fund and IDA is therefore key to providing them with the means for continuing their work.
- The borders of the industrial countries must be opened to the products exported by developing countries, and regional integration among developing countries must be facilitated. These two prerequisites for stability and prosperity are insufficiently recognized as essential development assistance resources. France and the European Union do maintain this approach with the African, Caribbean, and Pacific countries under the Lomé Convention. We urge all the developed countries to take similar measures with regard to poor countries.
- Efforts must be continued to relieve the debt burden, which in and of itself can sometimes jeopardize development prospects. The initiative to relieve the debt of the heavily indebted poor countries has now been launched, thanks to close cooperation between the IMF, the World Bank, and Paris Club. Now, we must continue our efforts to ensure that the initiative is fully implemented. I hope that all the

poor countries, whose debt is deemed to be unsustainable and who have implemented the necessary adjustment measures, may be able to benefit from it. The international financial institutions must increase their rate of production of debt sustainability analyses of the poorest countries and exercise, as the Paris Club has done, all the necessary flexibility in implementing the initiative, considering the specific characteristics of each country on a case-by-case basis.

- Remove the obstacles to assistance for post-conflict countries. France is pleased that the World Bank and the IMF have submitted to us an initial review of the issue. To those who have been excluded from the international community by war, we must now propose innovative solutions to enable them to reenter that community as they make their own efforts to do so.

We must continue the task of determining the conditions for special treatment to be adapted to each particular case, but which can be guided by some general principles. The international effort should be very closely coordinated among all the international financial institutions, particularly in order to ensure that net transfers are positive. It seems to me that two principles are fundamental: those who have just reached an arrangement with the Fund should not be penalized, and those who deliberately set themselves apart from the international community should not be rewarded later on.

This message of support to all developing countries, and calling for sufficient official assistance for the poorest countries, is a message that comes from France, but it also comes from Europe. In 1997, the members of the European Union alone provided 57 percent of the world's ODA resources. This shows the importance of the contribution made by Europe, which, in France's opinion, should be fully taken into account by the Bretton Woods institutions. France is in favor of strong, legitimate, and effective international institutions; moreover, France is concerned that the rich nations should continue to show solidarity with those countries facing difficulties. It is in this way that, together, we will overcome all the current problems.

Statement by the Alternate Governor of the Bank for Georgia

Vladimer Papava

After the restoration of its independence in 1992, Georgia became a member of the International Monetary Fund and the World Bank. By that time the country was going through the most turbulent times of its modern history—ethnic conflicts, civil war, and rampant crime. That is why reforms started only in the spring of 1994. They were initiated and based upon the anti-crisis program signed by the President of Georgia, Eduard Shevardnadze. At the outset of the reforms the socioeconomic situation in the country was extremely difficult. Inflation reached 8,000 percent annually, the GDP was three times less than the index of 1990, and 80 percent of the population lived beyond the official line of poverty.

The reforms bore the first tangible results even in the end of 1995, when the annual inflation rate maintained at 57 percent and the downward tendency of GDP was stopped. By the fall of 1995, these measures laid the basis for a monetary reform that, to some extent, was extraordinary and unprecedented. Three currencies altogether—the Georgian coupon, the Russian ruble, and the U.S. dollar—were replaced by the national currency, the lari, which has become the real legal tender and has been stable since its very introduction. In 1996 the Georgian government, in cooperation with the IMF and the World Bank, prepared a stabilization and structural reform program that was supported by a three-year arrangement under the Enhanced Structural Adjustment Facility and a Structural Adjustment Credit. This program focused on three strategic goals:

- support of economic growth;
- acceleration of the process of transition to a market economy and safeguarding the stabilization achievements with constant improvement of the social conditions of the population; and
- deeper reforms in the sphere of education and health care.

The results of the implementation of this program in figures can be identified as follows: in 1995, inflation stood at 57 percent; in 1996, it fell to 13.7 percent; and in 1997 it reached 7.3 percent. This year, inflation has not taken place at all. In 1995, the falling GDP was stopped; 1996 marked an 11 percent growth; and in 1997, the growth rate amounted to 11.3 percent. In the eight-month period of the current year, the growth rate has stood at 9 percent.

It should be mentioned that, with the purpose of accelerating the economic development, the irreversibility of reforms, and a deeper transformation—and on the basis of close cooperation with international financial institutions—in the winter of 1997, the President of Georgia issued a decree on main guidelines for the deepening of economic reforms. This decree covers all the necessary measures that the Georgian government should implement in the next two years.

Although in the course of reforms we encountered numerous obstacles and hardships, the Georgian government is firm in its determination to continue its democratic and market-oriented transformations. But recently, the reforms have been nearly thwarted by the immense difficulties caused by the Russian financial crisis. That is not unnatural, because Russia remains Georgia's largest foreign trade partner. A drastic fall in Georgian export sales to Russia was observed after the crisis. To overcome that situation, it would be appropriate for the IMF and the World Bank to elaborate on the program of special emergency assistance to the countries that have been, or still would be, affected negatively by the Russian crisis.

Statement by the Governor of the Fund for Germany

Hans Tietmeyer

The situation in the world economy, without doubt, has turned out to be more difficult than we expected a year ago in Hong Kong. In some regions, growth has slowed and global financial markets have become more volatile. It must be recognized, however, that the existing international economic and monetary system has brought advantages to all of us in the past. Particularly those countries that are at present undergoing temporary setbacks have benefited from the inflow of foreign investment. This has been reflected by impressive and—until last year—sustained economic growth in the emerging markets.

It is true that globalization is bringing several new challenges, but overall, the advantages for people throughout the world are clearly prevailing. The response to today's problems should, therefore, not be to question international integration, which would jeopardize the progress in development that has been achieved so far. Rather, the international economic and monetary system should be developed further in such a way that it will be ready for the challenges of the twenty-first century.

There is certainly no panacea for overcoming the present problems. We know today that the problems in the countries currently undergoing crises are different in some respects from those of the 1980s. Therefore, the prescriptions must in some respects be different, too, being no longer solely an issue of macroeconomic stabilization following periods of lax fiscal and monetary policies, but also one of good governance, a reliable legal framework, stable financial markets, efficient banking supervision, and the phenomenon of an excessive and ill-structured private debt. Market economies, in particular, require a reliable legal framework and well-functioning institutions. It has become evident that restoring confidence also requires social and political reforms.

Especially at this juncture, we need a strong IMF, both in crisis prevention and in crisis management. Regrettably, some responses to the crises in recent years and months may have contributed to the distortion of the incentive structures for financial market players and lulled investors into a false sense of security. Excessively large financial assistance by the IMF can undermine the proper working of the markets. Consequently, market players may easily underestimate the risks, trusting in government guarantees or a bailout by the international community. This moral-hazard problem has to be taken seriously. In the future, therefore, the private sector must be integrated better and earlier into crisis management and bear full responsibility for its actions.

IMF programs up to now, regrettably, have not always produced convincing results. Not in all cases did the Fund's conditionality address the underlying causes sufficiently. In particular, its financial support was not sufficiently effective whenever the country concerned did not clearly subscribe to radical corrective measures. Ultimately, it is the countries themselves that are responsible for the success of their programs. Shortcomings in their own efforts cannot be offset by providing international liquidity.

The free movement of capital is a key element in the efficient allocation of resources and therefore a precondition for increasing prosperity worldwide. For this reason, it continues to be appropriate to give the IMF a mandate for the liberalization of capital movements.

Experience in many industrial countries and emerging markets clearly shows, however, that liberalization must be accompanied by the establishment of stable financial markets and efficient prudential structures. The World Bank and the IMF can and must play a major role in that respect. Capital controls, however, are normally not an effective instrument of monetary policy.

I am concerned that the present difficulties might trigger pressure for protectionism, not only in crisis regions but also in other countries. To give in to these pressures would be highly detrimental to the prospects for a worldwide recovery. Therefore, it is crucial to keep markets open, even if competition intensifies. Similarly, it is also crucial to avoid a renewed round of competitive depreciation. In the long run, nobody would benefit, but everyone would suffer. The exchange rate policy has to be credible and in line with the development of the fundamentals.

On January 1, 1999, for 11 countries of the EU the single European currency will become a reality. This will create a currency area with a population of almost 300 million. The euro, the future European currency, will start on a—all in all—positive economic basis, notwithstanding that unemployment is still too high. The commitment of the EU countries to a stability-oriented fiscal policy and continuing structural reform is a key to the long-term success of the European Monetary Union and also for continued improvement of prospects for growth and employment.

Also, the incoming euro must inherit the stability of the deutsche mark. For this purpose, it is important that the European Central Bank is committed to the primary objective of price stability and enjoys genuine independence, secured under international law. A stable and strong euro is a major contribution by Europe to the stability of the global monetary system and to ongoing economic prosperity.

The involvement of the World Bank in overcoming the financial crises in Southeast Asia and in Russia is of great importance. The World Bank has unique expertise in addressing the underlying structural problems. At the same time, its main task, to fight poverty, should not be neglected.

We should not forget that many countries, including the poorest ones, have been implementing structural measures with great effort and commitment for a number of years. The IDA is the largest concessionary aid fund in the world. Countries trust its advice and welcome its financial support, which lays the foundation for sustained growth and fighting poverty.

It will be very difficult to fully integrate these countries into the world economy without efficient institutions in the financial sector, without a coherent development-oriented government strategy, and without a reliable legal framework. This has been demonstrated again by recent crises.

The development policy mandate of IDA and its success in implementing reform programs encourage us to successfully conclude the current negotiations for the twelfth replenishment by the end of the year. Also against the backdrop of the current negotiations, we note with great concern that armed conflicts jeopardize the first fruits of structural reforms and arduous reconstruction measures.

In the wake of the financial crises, structural shortcomings have also surfaced in the World Bank's income development. The negative trend in the World Bank's profitability must be tackled quickly so that it can regain its former scope for action. The recently adopted measures for improving the profitability of the Bank are a major step in the right direction.

For the IMF to play its key role in the international monetary system, the increase in quotas agreed in Hong Kong must be speedily implemented. This must have absolute priority. Germany has already notified the IMF of its consent to the quota increase. We hope that others will follow without further delay so that the IMF will again have sufficient quota resources as soon as possible. The IMF's key role in overcoming the crises should encourage all members to fulfill their obligations speedily. The NAB should also come into force as soon as possible. This "reserve tank," however, can only be a supplement to raising the quotas, and by no means a substitute. Germany is prepared to notify its consent to the NAB. Similarly, we are prepared to ratify the special one-time allocation of SDR.

The activities of the IMF and the World Bank complement each other. They are not competing organizations. Close cooperation between the IMF and the World Bank is particularly important when responding to crisis situations in order to avoid conflicting signals. We therefore welcome the ongoing efforts to improve cooperation between the two institutions.

I would like to take this opportunity to thank management and staff of the IMF and the World Bank for their sometimes extremely difficult work during the past months. You may rest assured that Germany will continue to attach great importance to the work of the IMF and the World Bank. Finally, I am pleased to join my fellow Governors in welcoming the Republic of Palau as a new member.

Statement by the Governor of the Bank for Greece

Yannos Papantoniou

The current turmoil in world financial markets was, to a large extent, unanticipated and initially underestimated. The chain reaction that followed the financial disturbance in Thailand a year ago revealed certain important negative aspects of globalization. The rules concerning the prudential supervision of financial institutions, including mutual and hedge funds, and the transparency of their operations proved to be insufficient in either predicting or preventing the coming financial turmoil. The spread of financial contagion that followed the massive devaluation of several Asian countries' currencies indicates the difficulties of the international monetary system in coping with global capital flows of an increasing scale. At the same time, our limited experience in dealing with a less traditional turmoil, which is not related to current account problems, led us to an initial underestimation of its effects on the world economy. There are some important lessons to be drawn from the recent instability of the international economic system:

- We must confront the fact that, since the international economic system is vulnerable to crises, domestic policies should take into account the uncertainty and volatility of the economic environment. Coping with the instability of the global economy requires credible and consistent policies. In this context, greater transparency is a prerequisite, especially for all financial institutions.
- The domino effect of financial disturbances tends to become stronger as a result of the growing interdependence of national economies, the increase in cross-border capital flows, and the rapid technological progress. As the cost of a financial disturbance increases, so does the benefit of preventing it. In that respect, we must carefully reflect on ways to strengthen and reform the prudential supervision of the international financial system, including the imposition of new international legislation if this is deemed necessary.

- Not all countries affected by a financial turmoil necessarily follow bad economic policies. Good economic fundamentals and sound policies are a necessary, but not sufficient, condition for protecting an economy from a financial contagion effect.
- In most cases, however, the economies that suffered from the current financial disturbances were facing deep structural weaknesses that need time to be cured. In the short term, it is the task of the international monetary system to alleviate the effects and the spread of the crisis. To that end, more resources for the IMF are essential. This is a matter of utmost urgency.
- According to many commentators, the rather limited success of the IMF in managing the current crisis has created certain credibility problems that weaken the impact of its intervention on risk perception. In order to reinforce the central role of the IMF in the smooth functioning of the international monetary system, we should carefully reflect on whether it is adequately designed in order to cope with the current economic environment. Apart from enhancing its resources, strengthening its political governance by transforming the Interim Committee into a Council would significantly improve the credibility and efficiency of the Fund.
- The stability of the international monetary system is a public good, and, as such, it cannot be established by market forces alone. Better coordination among governments, international financial institutions, and the private sector are essential.

The launch of the single currency in Europe, the euro, will improve the stability of the economic environment for member states. On the one hand, the convergence process of member states led to an improvement of their fundamentals. On the other hand, the size and compactness of the euro area will limit the member states' exposure to financial turmoil. Economic policy coordination within the framework of the Stability and Growth Pact, combined with the price stability objective of the European Central Bank, will further reinforce the euro. The emergence of a new strong international currency will contribute to the stability of the international monetary system. The increased responsibility of the EU for the smooth functioning of the international monetary system requires that its role in crisis management be enhanced.

The impact of the international crisis on the Greek economy is limited. Greek exports to all those countries hit by the crisis account for just 0.2 percent of GDP, and there is virtually no exposure of our banking system. Moreover, any loss in external demand is being compensated by domestic demand, which is driven by the high level of investment growth.

The more or less symmetric effects of the current crisis on Greece compared with the rest of the EU countries indicate the upgrading of Greece from an emerging to a pre-euro economy. The markets' perception is based on the substantial progress made toward convergence with the EU as well as on the successful participation of the drachma in the ERM since March 16. As was announced in the September Informal ECOFIN Council, the Greek drachma will also participate in ERM2 as of January 1, 1999.

The performance of the Greek economy over the 1994–98 period indicates rapid convergence toward the European Union average economic performance in both nominal and real terms. Greece aims at joining the Economic and Monetary Union by January 1, 2001.

The fiscal consolidation effort that began in 1994 resulted in gradually reducing the size of the general government's deficit by almost 11 percentage units of GDP by 1998. The size of fiscal consolidation achieved is almost three times larger than that accomplished by the rest of the EU member countries over the same period. The general government deficit in Greece is estimated at 2.4 percent of GDP in 1998.

On the public debt front, the generation of large primary surpluses in the state budget since 1994 enabled the debt ratio to decline from 111.6 percent of GDP in 1993 to 106.7 percent in 1998. The downward trend in the debt ratio is set to accelerate in the coming years. The progress achieved so far in combating inflation has also proved remarkable. Inflation has been reduced by 9.6 percentage points from 14.4 percent in 1993 to an estimated 4.8 percent in 1998. The overall economic policy stance in 1999 will remain tight. In particular, fiscal consolidation will continue, with the general government deficit set at a lower level than the 2.1 percent of GDP envisaged in the convergence program. Budget savings will be mainly achieved by containing public expenditure.

The third stage of EMU is not solely about nominal convergence. What matters most over the longer term is real convergence. Over the 1980s and 1990s Greece has experienced stagnant and even negative rates of growth. Starting in 1994, however, this retarding process was reversed, and the country has already entered a period of higher growth leading to real convergence with EU. Growth rates of the order of 3.5 percent to 4 percent are projected for the years ahead, based on fiscal discipline, price stability, a high investment ratio, and structural reform. In particular, Greece is experiencing very high rates of investment growth with beneficial effects on employment and productivity. Productivity is further reinforced by the introduction of flexibility enhancing labor market reforms, the implementation of an ambitious privatization program, the restructuring of loss-making public enterprises, as well as the improvement of the public sector's efficiency, especially in health, education, and employment policies.

Our government is committed to continue pursuing policies that favor stability, growth, and employment while reinforcing social cohesion. In so doing we prepare Greece to face successfully the challenges of the twenty-first century in the context of a unified Europe and a dynamic global economy.

Statement by the Governor of the Bank for Iceland

Halldór Ásgrímsson

I am honored to speak on behalf of the Nordic countries: Denmark, Finland, Iceland, Norway, and Sweden. At the outset, allow me to extend a warm welcome to the newest member of the World Bank, the Republic of Palau.

The Financial Crisis and the World Economy

During the past 15 months, the world economy has experienced serious financial upheavals. Nobody expected events of this magnitude, and it is disturbing to note how grave the economic and social consequences are turning out to be. As a consequence of the Asian crisis, world economic growth has been severely weakened.

Output in 1998 is now projected to increase by only 2 percent, followed by a moderate rebound in growth in 1999. While the crisis in East Asia still deepens, emerging markets in other regions experience a growing pressure on their economies. Adverse terms of trade developments have contributed to serious financial market instability in Russia and reduced growth prospects in Latin America. Considerable uncertainty remains about the near-term outlook for the world economy, and it is yet to be seen to what extent the crisis will spread to other regions. Western Europe and North America also risk being more seriously affected.

The Asian crisis cannot be solved through financial flows alone. We need to attack the crisis through an integrated approach, addressing both the structural problems and the severe social consequences. To establish conditions for renewed growth in the regions, investors' confidence must be restored through sound economic policies, firm bank and corporate restructuring, and strong commitment to address governance issues. We expect the international financial institutions to be a trusted partner in this endeavor, while the main responsibility will lie with the countries themselves. We welcome Bank efforts to protect the poor and vulnerable and stress that even further strengthening of Bank involvement is needed to meet the deteriorating social situation in many crisis countries. The economic turmoil in Russia has called for extensive assistance from the international community. To improve the situation in Russia, continued assistance is needed, but more important, vital structural changes must be implemented. The initiative is therefore on the Russian side and the Russian government should demonstrate its willingness and ability to take decisive reform action before additional financing from international financial institutions is provided.

The negative spillover effects of the financial crisis have clearly demonstrated how interlinked global capital markets have become. Under these circumstances international financial institutions must react swiftly and have sufficient capacity to deliver appropriate financial and technical assistance. The Nordic countries are concerned that efforts to stabilize the economic situation have yet to live up to expectations. We should strive for greater global coherence of policies in the fields of trade and finance and strengthen the collaborative work of international financial and development organizations. In this effort, the Bretton Woods institutions play a central role. We await the Bank-Fund cooperation to deepen and strengthen in the future.

The Partnership Agenda

Development cooperation has been characterized by a multiplicity of actors, with each actor practicing its own development agenda. Today, development work is increasingly influenced by private sector involvement, participation of the civil society, and the reinforced role of national and sector strategies. Furthermore, the efficiency of development assistance has suffered from a lack of donor coordination. Therefore, strengthened cooperation between actors is needed more urgently than ever, and we appreciate that the concept of partnership in development is gaining momentum. The Nordic countries welcome and strongly support the World Bank's partnership approach. We commit ourselves to be active participants in this effort and urge other actors to do likewise.

One of the cornerstones of the partnership concept is the ability of the developing countries themselves—their public, private, and civil institutions—to be at the core of the development process. Institutional capacity building and human development must therefore be essential ingredients of the partnership agenda.

Partnership is an important means to reach goals in our cooperation. If applied on a country-by-country basis, partnership can help us improve the development effectiveness of our joint work. When entering the new millennium, development cooperation should be characterized by more consistency and coherence in the way development cooperation is delivered.

The Strategic Compact

The partnership agenda is an important element of the Bank Group's renewal process. The Nordic countries continue to be strong supporters of the Strategic Compact, and we appreciate the progress already made to fulfill its objectives. The Compact is a central piece in the Bank Group's effort to adapt to the development needs of the twenty-first century, and we will follow the progress closely in the months ahead.

Private Sector Development

Let me use this opportunity to highlight one issue that the Nordic countries find crucial for this work. That is the World Bank Group's participation in promoting and supporting appropriate partnership between the public and the private sector in developing countries. In this context, each unit of the Bank Group has a special role to play. We are pleased that MIGA has adopted policies that enhance its development impact, and that the resource constraints of MIGA have been removed. However, more needs to be done. We have on several occasions expressed our concern about the lack of an overriding private sector policy for the World Bank Group. We expect to see concrete actions on this issue shortly and look forward to seeing the Bank Group apply a holistic private sector approach.

Debt Relief

I would briefly like to touch upon two issues that the Nordic countries regard as particularly important in the work of the World Bank Group. First, let me reiterate our strong support for the HIPC Initiative. Currently, Nordic countries have contributed more than 40 percent of the funds to the HIPC Trust Fund, and we emphasize the need for equitable burden sharing. The Nordic countries welcome the extension of the HIPC entry deadline, which can enable more countries to seek to join the initiative. There is, however, an urgent need to accelerate the pace of the HIPC Initiative. The Nordic countries encourage the Bank, as well as donor countries, to identify means to increase the efficiency of the initiative. We welcome the work aimed at enhancing assistance to post-conflict countries. The Bank should proceed with this work, and the Nordic countries urge other actors to do their part. We expect to see a strategy presented to the Development Committee at its 1999 spring meeting.

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Second, it is central to World Bank activities to continue the mission of IDA—to improve the lives of the world's poorest people. We must continue to pay full attention to the long-term needs of the poorest countries in spite of the restraints caused by the current financial crisis. The Nordic countries remain strong supporters of IDA, and we underline the importance of sufficient funding for its twelfth replenishment. At the same time, we emphasize fair burden sharing.

Development cooperation is most effective in countries that are committed to economic and social reform, and sustain sound development policies. Consideration of such commitments should be an essential element in the allocation process. We also urge IDA to strengthen its focus on improved governance. In this context, a more elaborate strategy is needed to enable IDA to assist poor performers, thus creating a foundation for positive development toward better governance.

Africa

Finally, allow me to mention that during a recent visit to Southern Africa I was pleased to learn more about growth of democracy and improving economic performance in the region. At the same time I must express my concern over serious setbacks in countries experiencing civil unrest. To prevent this development from spreading and thus threatening economic and social achievements in other countries, the security situation in Africa must be stabilized.

The falling official development assistance flows have hit the African countries hard. The Bank Group has a responsibility to assist them to reduce poverty through broad-based and sustainable growth. We call for the Bank and donors alike to increase their focus on Africa. A demonstrated commitment is needed, as well as a better and more coordinated use of resources. We also stress the need for increased investment and strengthening of the private sector. Furthermore, stronger emphasis must be given to human development through the provision of basic education and health services. These goals will be difficult to accomplish. However, the plight of Africa deserves our special attention, and the Bank Group must continue to be strongly involved in all of these areas central to the resurgence of African economic performance.

Poverty reduction and long-term structural development continue to be at the heart of Bank Group operations. At the same time, it must respond strongly to the still-evolving financial crisis. The challenge ahead is to overcome the economic turmoil and create a transparent and responsive international financial system, which prevents similar occurrences from happening in the future. The World Bank Group must define its role within this system and clarify how it can best continue to deliver upon its development agenda and improve the effectiveness of its work.

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

Yashwant Sinha

Mr. Chairman, let me join my fellow Governors in congratulating you on your taking over the chairmanship of the 1998 Annual Meetings. Let me also take this opportunity to congratulate Michel Camdessus and James

Wolfensohn for the tremendous efforts they are making, despite all odds, through the IMF and the World Bank during these trying times for the global economy.

This Annual Meeting of the World Bank Group and the International Monetary Fund is of crucial significance. It provides a timely forum for evolving a strategy to deal with the serious crisis confronting the world economy. Both the Fund and the Bank have responded with commendable speed to the Asian crisis. However, although more than a year has now been spent on the struggle to achieve a turnaround in the crisis-ridden economies, there is, thus far, little ground for optimism. For the crisis-hit East Asian economies real GDP growth rates in 1998 are predicted to be negative, ranging between 5 and 6 percent in some countries to over 15 percent in the case of Indonesia. These economies will continue to incur massive social and economic costs in terms of lost output, rising unemployment, and growing poverty. The social and economic stress on these countries is truly awesome. Moreover, entire regions of the world economy now appear vulnerable to significant risks and uncertainty arising from the contagion that seems to be spreading with every passing day. Economies hitherto deemed immune from the spillover of the crisis are no longer projecting reassuring robustness in their medium-term economic prospects. In fact, we may be at the edge of a full-blown global recession.

The brute fact is that, after five days of intense discussion and debate, we are still at a loss as to why contagion has continued to spread. Nor do we seem to have achieved clear, agreed, and effective measures to contain the crisis, a crisis which has grown unrelentingly over 15 months. I wonder if our apparent ineffectiveness in coping with this now global crisis could be due to the limitations of the Bretton Woods institutions in handling crises spawned by massive reversals of private capital flows in a highly integrated global capital market, where billions are transferred in an instant with a computer keystroke. The Bretton Woods institutions were created essentially for providing temporary balance of payments support by the Fund for current account imbalances and long-term development financing by the Bank. Confronted by the new generation of crises impelled by massive volatility in the capital account, the systems and resources at the command of the Bretton Woods institutions have been found wanting.

Clearly, we must think afresh about the nature of the crisis and the appropriate measures for its containment. While the Fund and the Bank have responded with speed, the quality and content of the response need sober review. In particular, we must think creatively to ensure early and preemptive response to emerging crisis. We must also find ways to better reflect the political dimension of crisis management in the decision processes of the Bretton Woods institutions, especially since the enduring economic and social consequences of crisis pose severe challenges for political management.

On the other hand, the present crisis has also highlighted the need to maintain, and indeed strengthen, the capacities of the Fund and Bank to discharge their normal, traditional functions of temporary balance of payments support and long-term development financing. Much of the financial help mobilized by the Fund and Bank in the present crisis has effectively been by way of liquidity support with the objective of stemming financial panics. Given the unprecedented financial commitments made, economies that are presently outside the envelope of the contagion have reason for feeling vulnerable if the situation was to take a turn for the worse. This, in itself, may have adverse implications for external confidence in these economies. This must not happen.

In working toward a new financial architecture, we must deal effectively with a wide range of issues. Let me emphasize a few points:

- First, while greater transparency and disclosure of financial information could clearly be helpful, the responsibility for transparency must be symmetric. Large private financial institutions (including hedge funds) must also follow higher standards of disclosure.
- Second, the search for international codes of conduct or practice in fiscal, financial, and monetary dimensions should eschew "one-size-fits-all" norms, which do not allow for differences among countries in institutional development, legislative framework, and stages of development.
- Third, the resources of multilateral institutions must be augmented quickly so that they can play a more effective role in coping with the new kinds of crisis posed by high levels of mobile private capital.
- Fourth, the imperative for strengthening domestic supervision and prudential norms must be extended to private lenders in international financial centers.
- Fifth, the sequencing of capital account liberalization must be carefully predicated on the strengthening of national fiscal and financial systems. Restraints on short-term capital flows should be viewed as prudential norms.

We support the HIPC Initiative and have noted its progress with satisfaction. We welcome its extension and widening of coverage. We also support the initiative to assist the post-conflict countries and the proposal to establish the Trust Fund for this purpose. The increasing cost, however, remains a concern. To ensure optimal use of the facility, tighter eligibility criteria linked to investment in human resources and effective monitoring of the assistance that is provided may be required. We advocate the need for a greater role of the bilateral creditors in its funding. The trade-off between the resources devoted to this purpose and the assistance available to other peace-loving countries for their development needs has to be kept in mind.

We reiterate that there is urgent need to evolve guidelines so as to limit the pressure on the IBRD's net income. Thus far, the emphasis has almost entirely been on imposing higher lending charges to increase revenue. This, of course, increases the cost of borrowing from the Bank by the poorer economies. Therefore, it is important that principles of burden sharing be deployed for financing such initiatives as HIPC and post-conflict assistance. We hope that when the decisions regarding funding reached in July on the basis of voting are revisited in a year's time, a consensus based on equitable burden sharing will be reached. This may entail using incremental costs, including those for new programs for determining the voting strength of contributing member countries.

Let me take this opportunity to apprise this distinguished gathering of the recent developments in the Indian economy. Since the early 1990s, we have made far-reaching progress in addressing underlying structural distortions in the economy and encouraging private sector activity. Trade and tariff reforms, financial sector liberalization, and the opening of the investment regime prompted a strong supply response. The real economy grew at an average annual rate of over 6½ percent in the past three years; export growth was buoyant for most of this period; and the share of foreign trade to GDP rose sharply. Concomitantly, the external position continued to remain easily manageable. The current account deficit was modest; foreign direct and portfolio investment inflows increased strongly over much of the period; and external debt parameters continued to improve.

In 1998/99, although the external environment will be decidedly adverse, we are confident that under the circumstances, the Indian economy will perform creditably. Growth is expected to be in the order of 6–6½ percent, the current account deficit is expected to be a little over 2 percent of GDP, the debt service ratio will continue to decline, and sound external debt management has meant that short-term liabilities constitute less than 6 percent of our aggregate external debt. Foreign exchange reserves are expected to remain at a comfortable level and will provide for an import cover of about six months. However, more recently we have not entirely been spared the spillover effects emanating from the continuing Asian financial turmoil. Against the backdrop of anemic world trade performance, our export growth has also suffered, in particular because East Asia accounts for about 20 percent of India's exports. Moreover, given the retreat of global stock markets, the impact on financial flows through portfolio investment into India has also been affected. However, thus far the outflow has been modest in comparison to other economies in the region.

We have continued to press ahead with our far-reaching reform agenda. We have strengthened prudential norms and supervision practices of our financial sector. Our foreign trade policies have been liberalized further. Capital market reforms have continued. Policies for foreign investment have been further liberalized. Major reforms have been enacted to promote investment in infrastructure sectors such as power. A new modern law on foreign exchange management has been introduced in the parliament. We have undertaken wide-ranging initiatives to spur investment in housing and information technology. We are pressing ahead with our programs for privatization of and disinvestment from our public enterprises.

All these reforms are aimed at accelerating the growth of output and employment and thus lifting millions of households from the scourge of poverty. The difficult global environment has strengthened our resolve to conquer adversity and press forward with rapid economic growth with equity.

Statement by the Governor of the Bank for Indonesia

Bambang Subianto

Mr. Chairman, honorable delegates, ladies and gentlemen, it is an honor for me to address for the first time these Annual Meetings of the World Bank and the International Monetary Fund. Let me first touch upon the East Asian crisis. Since the last Annual Meetings, the crisis has become more severe and widespread in ways that no one would have anticipated. While a measure of financial stability has been restored in some Asian countries, the recovery is not in sight yet. On the contrary, the ripple of the crisis has reached far into other corners of the world.

The continuing crisis has raised concerns about the future prospects of some of these Asian countries and their impact on the global economy. Their remarkable past achievements in economic and social development, particularly in alleviating poverty, are now in danger of being wiped out suddenly. These countries are now facing the very challenging task of protecting these hard-earned achievements and preventing masses of people from being thrown back into poverty. For Indonesia, the crisis has brought more than adverse economic consequences. In this connection, I would like to reaffirm the strong commitment of my government to continuing the economic reforms despite the difficult social and political environment in the country.

Our economic stabilization and reform program consists of four main elements: to restore confidence and reform financial institutions, to restructure private sector debt, to improve efficiency and competitiveness, and to strengthen public and corporate governance.

To restore the confidence of depositors in the banking system, we have provided a comprehensive guarantee to all bank depositors and creditors. Although high interest rates pose a heavy burden for the business sector, they are essential to encourage people to put their money back into the banks in line with our effort to control inflation and bring the exchange rates to a more sustainable level. Liquidity will be relaxed gradually if the rupiah strengthens and the inflation rate declines. Banks that no longer meet the standard banking requirements are being placed under the control of the Indonesian Bank Restructuring Agency (IBRA). Out of 55 banks placed under IBRA, 10 were suspended, 4 were taken over by IBRA (through recapitalization), and the remainder will be recapitalized. Other banks not placed under IBRA will also be recapitalized.

The second element of our stabilization and economic reform is solving the debt problem of the private sector. In this regard, we have reached a framework for debt agreement with external creditors to restructure corporate and inter-bank debt. Companies that are unable to fulfill their debt obligations are required to enter the bankruptcy process through a special court. In this regard, the House of Representatives has recently approved new bankruptcy laws that provide a basis for resolving commercial disputes fairly, transparently, and rapidly.

More recently we also have formulated the restructuring framework to promote the resolution of private debt, known as the Jakarta Initiative. The measures include improvements in the laws and taxation with a view to supporting the restructuring process. With these frameworks, we expect the flows of bank financing will be restored to normalcy, productive activities revived, and job opportunities recreated.

The third element of our program concerns the real sector. Here we are removing various elements or procedures that give rise to economic rents and inefficiencies, such as abolishing licenses. Meanwhile the awarding of business licenses, contracts, or procurement of goods and services by the government and state-owned enterprises will be carried out openly and competitively. We also strive to create a climate of fair competition to strengthen our productive sector. Furthermore, we expect to complete a competition law this year.

The fourth element is improving corporate and public governance. To improve corporate governance, we need to have better monitoring by both banks and capital markets by improving transparency and disclosure and by adopting stricter accounting practices. The government bureaucracy will be developed into an organization that is capable of carrying out efficiently the conduct of governance and provision of public service, free from intervention and political influence.

All of our endeavors to reform and reenergize our economy will not be successful without assistance from our development partners in economic recovery and the social safety net programs that we undertake to help the lower-income group. I would like to express our appreciation for the immediate responses of the international community in providing financial support to Indonesia as well as in helping our government address the social consequences of the crisis.

The emergence of financial crisis in Asia has again underscored the importance of close monitoring of the financial system. Improved collaboration through an early sharing of information and close cooperation between the Bank and the IMF remains of vital importance. We encourage the Bank to further strengthen its collaboration with the IMF in the future while maintaining its mandate, which is promoting sustainable poverty reduction and economic and social development. In this regard, the Bank's ability to carry out such a mandate depends on the availability of resources. Therefore, all shareholders should consider all options, including a general capital increase to strengthen the financial capacity of the Bank.

I commend the Bank and the Fund for the progress in the implementation of the Initiative for Heavily Indebted Poor Countries and in the initiative to provide debt assistance to post-conflict countries. It is our hope that the debt assistance provided will enable the benefiting countries to provide more social services for their citizens. Let me conclude by expressing our appreciation again to the World Bank and the International Monetary Fund for their contribution in our development efforts. We look forward to a closer development partnership in the years to come.

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

Hossein Namazi

We are meeting at a time when the risk of a major slowdown of the world economy has increased. It is, therefore, imperative that the Bretton Woods institutions adopt a very coherent and comprehensive approach to prevent the further widening and deepening of the recent crises. It is encouraging that the Bretton Woods institutions are actively examining their policy responses to recent crises, in particular the financial turmoil in Southeast Asia. It is hoped that these reviews will render their assessment of policies for stability and growth less deterministic. Indeed, a review of the doctrine that there is only one unique set of "good" policies that generate stability and growth is in order. It seems more reasonable and empirically valid that countries—with different economic structures in different stages of development, with varying degrees of constraints on their infrastructure and institutions, and with different capacities to respond to external shocks—may adopt different but effective paths to economic stability and growth. The efficiency and consistency of these paths should be assessed against the unique position of each country and the goals it has set for itself rather than forging one-size-fits-all policies.

The Bretton Woods institutions seek to adopt a unique set of "good" or "sound" policies to bring about economic convergence in developing countries. In this context, an essential point is that the behavior of developed countries in the developing world is not being assessed properly. One of the main reasons behind the prevailing financial crises in certain of the developing countries is the unfavorable treatment by the developed countries toward the developing world, once policy reforms recommended by the Bretton Woods institutions are in place.

We commend the IMF and the World Bank for the progress made thus far with the initiative to assist heavily indebted poor countries and post-conflict societies. It is hoped that these initiatives will be further strengthened and broadened to provide a reasonable chance for these countries to benefit from the globalized economy. We continue to emphasize our strong support for the Enhanced Structural Adjustment Facility and urge immediate action to ensure adequate funding for this highly worthwhile program.

It is particularly critical that an efficient and patient transitional arrangement, along with the provision of adequate financing, be designed to provide strong support for the IMF's encouragement of an orderly process of capital account liberalization. The IMF's experience with liberalization of current accounts, particularly over the past five years, should prove highly valuable in assessing the level of financial and technical assistance, the length of the transition period, and the approval process needed to permit countries to minimize the risk of disruptive shocks as they open their capital accounts. To this end, the Executive Board of the IMF must carry on very careful deliberations in designing an effective and protective framework within which members can undertake capital account liberalization at their own pace and with full confidence that strong safety nets are in place should their economies be subjected to shocks in the process.

We reiterate our support for IDA replenishment and urge rapid approval by the members of the quota increase and the special allocation of SDRs. It must be noted, however, that even these additional resources may not prove adequate for the needs of the global economy. The large shareholders should explore all possible ways and means of strengthening the financial resource bases of these institutions to allow them to carry out their mandates. It was, after all, the intent and the purpose behind the creation of these institutions that they would be in a position to prevent and/or resolve crises before they gather enough momentum to pose serious risks to the stability of the international economic and financial systems.

I deem it appropriate here to point out that "economic issues" have been the main focus of the founders of the Bretton Woods institutions. It is, therefore, imperative that these institutions, by adhering to the principles explicitly stipulated in their Articles of Agreements, concentrate their efforts on ensuring that those principles materialize. Political considerations that interfere in the decision making of the Bretton Woods institutions leads to discriminatory treatment against some member countries, which is neither acceptable nor in line with the objectives of these institutions.

The recent crises have led to a collapse of the prices of oil and other commodities. The adverse impact on our economy has been severe at a time when stabilization policies were paying dividends in terms of lower inflation. In response, we have taken steps to adjust to the new market realities. For the medium term, we intend to follow a reform program announced by President Khatami in August 1998. This program provides a comprehensive solution to attain greater social justice and economic recovery. Among the objectives of this program are:

- greater transparency in the macroeconomic system and regulatory frameworks;
- budget reforms;
- tax reforms;
- downsizing of the government's role in economic activities and privatization of government enterprises;
- promotion of private investment;
- dismantling of monopolies and promoting of competition;
- price liberalization in all but a handful of products for which the government will subsidize specific quantities; and
- a social safety net to protect those most vulnerable.

Once fully operational, the program will pave the way for the full integration of the Iranian economy in the global system.

Statement by the Governor of the Fund for Iraq

Hikmat M. Ibraheem Al-Azzawi

Mr. Chairman, Governors, ladies and gentlemen, I am honored to greet you on behalf of the Iraqi delegation and to express our wishes for continued success to you, Mr. Chairman, and to the Managing Director of the IMF, the President of the World Bank, and the Governors attending this meeting today, in your efforts to achieve the goals pursued by the international community, and by the Bretton Woods institutions in particular.

Over the past eight years, whenever the Iraqi delegation has been able to attend these meetings, it has pointed out the contradiction between the economic sanctions imposed on Iraq, along with the freezing of its assets and bank deposits, and the economic principles advocated by the Fund's Articles of Agreement. We have tried to bring to light the economic and social effects of these sanctions on the lives of the Iraqi people, especially children and the elderly. The sanctions deprive our people of the chance to lead a decent life and prevent them from choosing a path to development that is in keeping with their environment, philosophy, social system, and the independent life they choose to live.

Throughout this period, the Iraqi delegation has called on the Bretton Woods institutions at the Annual Meetings of IMF Governors, finance ministers, and governors of central banks to do their utmost to remove the economic sanctions against Iraq, relieve the suffering of an entire people, and stop the human catastrophe caused by long years of deteriorating conditions with no end in sight. Yet, despite our urgent appeals, economic sanctions against the Iraqi people remain in effect.

The leaders of the Bretton Woods institutions have faced great challenges and, in keeping with the principles of their Articles of Agreement, have endeavored to overcome the problems besetting the world economy, while at the same time working to strengthen the structure of the international monetary system. They dealt with the problem of indebtedness that emerged in the 1980s by reducing the debt burdens of the poorest countries, and helped prevent the Mexican crisis in 1994 from spreading to nearby countries and other economies. These institutions have persisted in the struggle against world poverty and have continued their efforts to improve living conditions in the poorest countries through improved health and educational services and technical assistance aimed at overcoming the most urgent problems in these countries. They have announced their determination to help achieve sustainable world growth, to fight corruption, to promote the transparency and timeliness of information, and to meet the challenge of the Asian economic crisis by providing financial and technical assistance to mitigate its effects.

Despite these many difficulties, the IMF has continued to work on amending its Articles of Agreement to allow for capital account convertibility, in keeping with the trend toward globalization and integration of the world's financial markets, which the Bretton Woods institutions are working to help achieve.

Regardless of our agreement or disagreement concerning the methods for dealing with and resolving these problems, we must surely agree that sanctions against any country are in conflict with the principles adopted by the international community and its institutions, particularly the Bretton Woods institutions. Are economic sanctions and the freezing of bank deposits not in conflict with the call for liberalization, strengthening the international monetary system, convertibility, and integration of the world's financial markets? Are sanctions not in conflict with attempts to improve the living conditions of the poor in developing countries? Ladies and gentlemen, are sanctions not in conflict with the goal we defined during the Annual Meetings in 1996: working together to achieve sustainable world growth? Are sanctions not in conflict with efforts to reduce the burdens of indebtedness?

I am speaking not only of the sanctions imposed upon the Iraqi people and their harmful effects upon an entire nation, a nation that had a pivotal role in advancing human civilization, a nation that participated effectively in building its economy, promoting its development, and improving its standard of living from the 1970s until sanctions were imposed, and that even provided financial and technical assistance and concessional loans to a number of developing countries in Africa, Asia, and Latin America. I am speaking here of sanctions that are being used as a political weapon against particular countries, in conflict not only with the Articles of Agreement of the Bretton Woods institutions, but also with their principles and announced policies, and with the desires of the world community to promote development, fight poverty and hunger, and achieve a world in which justice and peace prevail.

I stand before you today, asking the world community and the leaders of the Bretton Woods institutions to announce a bold and straightforward position on economic sanctions, based on their Articles of Agreement and on the principles and policies aimed at strengthening the international monetary system, fighting poverty, and promoting development.

Your institutions announced an unequivocal position on government corruption at a time when discussions on the subject were a cause of concern on many fronts. Today, I ask you to accept the challenge and announce a clearly defined position on the imposition of economic sanctions. The Bretton Woods institutions have never lacked the requisite boldness, as demonstrated by their continued willingness to meet the great challenges facing the world economy, while at the same time increasing the international community's confidence in them by refusing to yield to the dominance of certain countries.

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

Charlie McCreevy

The past year has been exceptionally difficult and demanding for both the Bank and the Fund, with the continuing difficulties owing to the East

Asian crisis and new pressures arising from events in Russia and other emerging market economies. The fallout from these crises threatens the progress we have made on development and poverty reduction over the past two decades. In an increasingly integrated world, the effects of these events have spread beyond the countries and regions concerned. It is imperative therefore that the international financial institutions redouble their efforts to bring stability to the global financial and monetary system, so that producers and investors can be confident of a return to normal trading and investment patterns. Resolving the difficulties in Russia, reviving growth in Southeast Asia, and minimizing contagion effects are all vital ingredients.

The present difficulties demand a strategic response and an appropriate mix of short- and long-term measures. Ireland will work closely with the IMF and the World Bank, and our international partners, to ensure that these institutions have the appropriate resources and develop the necessary strategies to address the challenges facing the global economy in the twenty-first century. It is clear that the IMF must continue to play a critical role at the center of the international monetary system. Its role in crisis prevention should, however, be strengthened. The early implementation of the IMF quota increase and the establishment of the NAB now assume even greater importance. I am glad to report that Ireland has already consented to the increase in its quota under the Eleventh General Review of Quotas.

It is now recognized by all that the key to economic and financial stability, both domestically and internationally, is the pursuit of policies based on price stability and balanced budgets, in an open market economy which favors an efficient allocation of resources. Sound policies will recognize a number of core principles:

- The most vulnerable groups in society must be protected, to the extent possible, in times of economic turmoil and financial turbulence.
- The private sector must bear its fair share of the overall burden of adjustment in support of strong economic reforms for countries in economic difficulty.
- Transparency of information and in decision making is a key element in efficient economic management.

The urgent attention that these present crises demand should not deflect us from parallel consideration of the enormity of the challenges facing underdeveloped countries. The eradication of poverty and the integration of Africa into the world economic, financial, and trading systems should remain central to all our concerns.

Policy on Third World Debt

I welcome the emphasis that the Fund and the Bank are continuing to give to the problem of third world debt. The Irish government fully supports the efforts to bring the deepest possible level of debt relief to the poorest countries. My government has recently adopted a set of principles that will govern Ireland's policy toward third world debt. In brief, the principles seek to ensure that debt relief measures take full account of the social dimension, embrace widespread consultation in the countries in question, and encourage sustainable economic development.

Debt relief strategies must become an integral part of overall development policy. They must reinforce the existing emphasis on the fundamental goal of poverty alleviation, as well as environmental sustainability and gender equality. Ireland is a strong supporter of the HIPC Initiative and welcomes the openness and flexibility that all partners have brought to the process. Progress under the debt initiative has been significant, but there is a strong case for further flexibility in its implementation. Speedier implementation and application to as wide a range of the heavily indebted poor countries as possible must be key goals. Definitions of debt sustainability should be broadened to take human, as well as economic, development into account. The two recent evaluations of the ESAF emphasize the need for the IMF to take full account of the social impact of policies in the design and implementation phases of macroeconomic and structural adjustment programs. The most vulnerable sections of the community must be afforded special consideration, with safeguards against the most severe consequences of structural adjustment policies.

In calling for deeper debt relief and wider and speedier application of the debt initiative, my government has decided to provide £11 million to the World Bank's HIPC Trust, and also to provide £4 million to the IMF's ESAF-HIPC Trust. These resources are additional to £9.5 million that has already been committed by Ireland to Mozambique and Tanzania for debt relief. In the context of this major debt relief package, Ireland will make its proposed contribution of £7 million to the ESAF. The need for reform of certain aspects of ESAF programs is clear, and I am encouraged by the positive response of the IMF to the external evaluation of the facility. We must ensure that the lessons of the external review increasingly influence the planning, design, and implementation of ESAF programs.

I encourage the international community, including bilateral creditors, to take an even more generous and flexible approach to the heavily indebted poor countries. Deeper debt relief is a prerequisite to integrating the poorest countries into the global economy.

I am heartened by the recent trend in both the Bank and the IMF to involve civil society in the developing countries more fully in the planning, design, and implementation phases of IMF and World Bank programs. Successful implementation of programs will also be facilitated through greater transparency in the workings of the Bretton Woods institutions.

Summary

We must all recognize that the Bretton Woods institutions have, since their establishment, served the international community well. Their record of achievement has been outstanding. Recent crises have raised awareness of how vulnerable emerging economies can be in the face of sudden shocks. The Irish government looks forward to working with the Fund and the Bank in strengthening the architecture of the international monetary system and, especially, helping to resolve the problems of the most heavily indebted poor countries.

Statement by the Governor of the Bank for Israel

Jacob A. Frenkel

Mr. Chairman, distinguished Governors, Mr. Michel Camdessus, Managing Director of the International Monetary Fund, Mr. James Wolfensohn, President of the World Bank Group, delegation members, ladies and gentlemen: it is a great honor to address you once again as Governor for Israel.

The world economy is in a period of increased uncertainty and growing risks. Many emerging markets have experienced storms and crises. Capital markets have dried up and spreads have risen to new heights. The level of uncertainty is evident also from the extraordinary large revisions in forecasts regarding the state of the world economy. The October 1998 *World Economic Outlook* projection of world output growth is 2 percent, and world trade volume is now expected to grow by only 3.7 percent, compared with the May 1998 projections of world output growth of 3.1 percent and expansion of world trade by 6.4 percent. These downward revisions reflect the rapid changes in the shape of the world economy. Yet, this changing external environment should not affect every economy in a similar manner. We are once again reminded about the critical importance of fundamentals such as sound macroeconomic policies, structural reforms, sound banking and financial institutions, the development of markets for the intermediation process and the trading of risks, while avoiding moral hazard. The increased fluctuations in financial markets around the globe and the high costs of the crisis for those countries involved underscore once again the importance of conducting policies that are designed to achieve stability as a necessary condition for sustained growth. Yet, because all countries belong to the "global economic system," good domestic policies do not always provide the guarantee that each and every economy is shielded from storms that originate by systemic difficulties and by foreign misconduct of policies. This interdependence has heightened in recent years by the high degree of integration of capital markets. Many difficulties are systemic, and systemic problems require systemic solutions. The multilateral organizations provide the best and most appropriate framework for dealing with such global issues.

We live in a globalized world. Globalization is much broader than that of markets; it is also a conceptual globalization about the institutional structure, the legal structure, knowledge, information, norms, and understanding of what good economics means. In the era of globalization, we see that information flows fast, capital flows may change directions rapidly, and markets react instantly to news worldwide. In this framework there must be a renewed commitment to strengthening the multilateral institutions by reinforcing their financial base and increasing cooperation in the form of timely, accurate, and transparent information, unified regulation, and the promotion of sustainable policies.

Under the leadership of the multilateral organizations, the world has greatly benefited from the removal of protection walls and from adopting the strategy of openness. The test of the commitment to this strategy comes during a period of a slowdown, such as the one that is prevailing today, and then it is important to remember that it remains very wise and crucial to maintain open markets and resist the temptation for an inward-looking approach that breeds protectionism and capital controls. In this era of globalization, there is great opportunity for countries to increase investment, improve technological developments, and increase domestic competition by opening their markets to global competition and opportunities. In the global world, capital markets are intolerant to policy mistakes and are generous to good policies. Therefore, the incentive for policymakers to pursue the right policies increases when the economy is open to capital flows. In the old days it used to be said in the capital markets that in the competition big fish beat small fish. Today, fast fish beat the slow ones. The issue is not whether one is big or small, but whether one is fast or slow, and this gives incentives to adopt structural policies that enhance the flexibility of the economic system, and provides opportunities to small countries like my own, Israel, to successfully participate in the world capital market. The new openness also requires a new approach to the supervision of banks and other financial intermediaries (including hedge funds), as well as renewed attention to the operational meaning of the social safety nets.

The globalization of capital markets has changed the thinking about the concept of time. What used to be a distinction between the short and long runs has become very blurred because the job of well-functioning capital markets is to translate the future into the present. Capital markets trade expectations about the future and thus transform it into the present. This conceptual revolution has made the short run indeed very short, and much less relevant for policymakers. Policies must be consistent with the long run. One cannot "buy" sustainable growth by accelerating inflation but rather inflation means in the long run less growth. We have all learned, therefore, that economic policy must be cast within a medium-term framework, that "fine-tuning" does not help, and that sustainable growth can only be obtained under conditions of stability.

There is also a fundamental change in the relation between policymakers and the markets. In the old days, in order to be successful as a policymaker you had to surprise the market, you had to have your deliberation very secret and to announce it over the weekends, when the markets are closed, and if there was a leak, then you failed. This is not the case anymore. In the global economy, where markets are so big and strong, one must respect the market and communicate with it. Policymakers have a continuing dialogue with the market and not adversarial relations based on manipulative surprises. It follows that good policies must be credible, transparent, and accountable and have a clear and well-defined known objective.

In the era of global markets it is important that governments not provide a sense of insurance to market participants without charging the appropriate insurance premium. In a risky world, agents in the market are operating according to incentives. If the government provides the message, implicit or explicit, that it stands ready to bail out, then of course the private sector will tend to assume risk to a degree that is excessive from the society's perspective. It is true in every area, including the foreign exchange markets. A promise to fix the rate of exchange against market forces that reflect the "fundamentals" cannot be sustained but may still induce market participants to take foreign exchange positions that are inconsistent with the "true" risk in the system, just because they assume to be protected by the government. A strong financial system—including a sound system of financial intermediaries, including banks and other intermediaries, and developing mechanisms where risk is priced correctly by market forces—is crucial not only for financial stability, but also for the real economy. In this context, it is important to note that it is very important to deal with difficulties in a timely manner so as to avoid the "too big to fail" syndrome; deal with it appropriately.

In my own country, Israel, we worked to prepare the economy to the changing world and to increase stability in a multiyear setting. In Israel we have adopted a multiyear trade liberalization process, a multiyear budget-deficit reduction scheme, and a multiyear inflation target. This approach has served us very well. The real budget deficit as a fraction of GDP is being reduced according to the preannounced path, a 2 percent deficit in 1999, as was recently approved by the Cabinet, and 1.5 percent deficit by 2001, and the basic aim is to limit and reduce the tax burden. The inflation target was set at 4 percent for 1999, with further progress toward price stability in subsequent years. Thus, economic anchors were set in terms of both structural policies and macroeconomic policies. These policies are complementary and work together to increase both flexibility and stability to the economy.

In 1997 and the first half of 1998, these important positive developments are noteworthy: the current account deficit was cut from a critical level of 5.4 percent of GDP to 3.3 percent in 1997 and is continuing to decline in 1998. This improvement in the current account deficit was made possible by fiscal tightening, the budget deficit was reduced from 4.7 percent of GDP in 1996 to 2.8 percent in 1997, and the target for 1998 is 2.4 percent. The inflation rate in Israel was reduced considerably from 10.6 percent in 1996 to 7 percent in 1997 and is likely to be a significantly lower percent this year. In parallel to these positive developments, the economy is slowing down: growth amounted to 2.2 percent in 1997 and is estimated to be between 1.5 and 2 percent in 1998, unemployment rose to 7.7 percent in 1997 and is estimated to reach 9.3 percent in 1998.

There are several reasons for the slowdown in the economy. The period of rapid growth, of around 6 percent per year in real terms, in the first half of the decade, was made possible by an expansionary impulse of immigration that came in large numbers primarily from the former Soviet Union. In addition to the end of this expansionary impulse, especially in investment (including housing) and consumption, several factors contributed to the slowdown. Tight macroeconomic policies were needed since 1997 because of the large budget and current account deficits in previous years. The economy is undergoing a structural change from the more traditional industries toward the high-tech markets. In addition, with the restoration of geopolitical stability in our region and with further progress in the peace process, we all hope that such stability will be the positive element of the economic processes and will be reinvigorated.

By making in time the necessary correction in the current account, the budget, and the rate of inflation, Israel undertook a strategy of adopting a medium-term approach and of preparing itself to the new opportunities of being a player in the global markets. This year, on the occasion of the fiftieth anniversary of the state, the government of Israel, together with the Bank of Israel, announced fundamental liberalization of foreign exchange control. This culminated a multiyear effort to remove controls and develop financial markets, while adapting the appropriate regulatory requirements including the evolution of the exchange rate system. Controls were lifted, and except for a limited list of restrictions, activities in foreign exchange are freely allowed. This underlines the strategy to increase competition, increase openness, avoid protectionism of all kinds, and conduct policy in a manner consistent with the long-term perspective for achieving sustainable growth with stability.

We are not users of Fund resources, but we benefit from the Fund's advice. I would like to express our appreciation to the Managing Director of the Fund, to the President of the World Bank, and to their dedicated staffs. I wish them success in addressing the present turmoil, and I am confident that under their leadership the battle will be won for the benefit of the entire world economic and financial systems. Finally, I would like to thank the Executive Directors and the Joint Secretariat, and to wish them all continuing success.

Statement by the Governor of the Fund for Italy

Carlo Azeglio Ciampi

The slowing of economic growth, the financial instability sweeping through key areas of the world, and the sense of grave uncertainty that permeates markets pose great and urgent challenges that are putting our institutions under strain. The world is looking to us for direction and solutions. We must provide them, promptly and effectively. The problems we are facing can be solved, but there is no time for hesitation or disagreement.

Albeit slower, growth is still robust in North America, Europe, and China. Other parts of Asia, Latin America, and Africa are also showing continued recovery. It is imperative that economic crises in other parts of the world not be allowed to spread further.

Therefore, our policy response must first aim at sustaining growth. This is a shared responsibility. We must use all the means at our disposal, exploiting fully the margins that still exist at the national and regional level to promote consumption and investments, through measures that can strengthen market confidence and minimize the impact of adverse wealth effects resulting from the negative performance in equity markets.

Against an overall background of falling output growth, weakening commodity prices, and historically low inflation, the available margins for interest rate reductions should be fully utilized. It is a response that should not be further delayed. The recent U.S. decision concerning short-term rates, which follows that of Canada, and the fiscal and structural actions taken by Japan go in the right direction.

Adequate domestic policies—supported, when required, by international measures—must be promptly implemented in countries where exchange rate and financial instability are still a problem or are becoming a serious concern. Domestic responses must be proportionate to the magnitude of the crisis, as in the case of Korea and Thailand, and anticipatory, as in Chile and Argentina, to cite just a few examples. When needed, external support from our Bretton Woods institutions and the regional banks has to be provided, in adequate size and fairly priced.

Our international institutions have borne the brunt of crisis situations of unprecedented scale and complexity. They have shown flexibility in facing the consequences of the Asian crisis. The hard realities that we face show the need to strengthen their capacity to prevent and manage economic emergencies.

In the first place, they should be provided with the necessary resources. I believe that our first priority is to complete the quota increase of the Fund and put the NAB into effect before the end of the year. It is essential for the Fund to be endowed with sufficient resources to support member countries that follow sound economic policies. This is a feasible goal, and most important, it is in the interest of all of us. Analogously, we should strengthen the financial position of the World Bank, allowing it to continue in its essential development tasks and, at the same time, to help members that face crisis situations arising from, or affecting, their financial markets.

In the longer term, learning from past and recent experiences, we must introduce key changes in the architecture of our financial system. Much has been done in areas such as data dissemination, data standards, and codes of good fiscal practices, but much more still needs to be done.

First, we must reconsider the adequacy of some exchange rate regimes in the areas where they are now utilized, in order to reduce rigidities, encourage early adjustments, and decrease foreign exchange market pressures.

Second, our institutions and resources must be used more effectively. Our Bretton Woods institutions and their regional counterparts, while preserving their specialized functions and characters, must increase the level of coordination of their approaches and responses to member countries' financial problems.

Third, surveillance and supervision must be improved. Freedom of capital movements does not mean absence of rules and of monitoring. Early warning systems must be put in place. Disclosure requirements regarding both public authorities and private sector market participants must be strengthened and widened. Short-term capital flows—especially debt-creating flows—must be monitored more extensively and in a more timely manner than in the past. Large institutional investors must be properly supervised, and offshore financial centers made to conform to appropriate behavioral norms.

Fourth, the Fund should be given a mandate to promote an orderly liberalization of cross-border capital transactions within a rule-based framework that maintains in place appropriate national safeguards and the strengthening of domestic financial systems, particularly in emerging countries. This will allow members to benefit fully from efficient international allocation of capital and lower costs for it. In order to achieve this objective, an amendment to the Fund's Articles of Agreement can be considered.

Fifth, in dealing with potential future payment crises, we should agree on a set of changes that, on the one hand, could ensure a more active participation of the private sector in their resolution and, on the other, could determine the circumstances and the procedures under which lender of last resort functions will be exercised at the international level.

Finally, we must solidify the architecture of our monetary system, beginning with the strengthening of the Interim Committee, possibly transforming it into a permanent body, capable of effectively orienting the strategic choices of the IMF. These are our tasks. These are our challenges. Let us face them and work together at their solution.

Let me now turn to Italy: in the past decade Italy has gone through profound changes in its economic culture, to reach what I like to call "the culture of stability." Inflation is now firmly under control at below 2 percent; we are running a significant primary budgetary surplus; the debt-to-GDP ratio is declining; and our currency is stable, thanks also to our joining the European Economic and Monetary Union. These results were not easy to reach, and they have been possible only with the understanding and the full support of the Italian people and the active cooperation of unions and entrepreneurs, who came to appreciate the advantages of stability and accepted sometimes painful sacrifices to reach it.

Participation in the euro is both the result of this quest for stability and an important step to reinforcing it, as we are seeing in the present financial turmoil. At the same time, it is also a commitment to consolidate these results; accordingly, we are pursuing a medium-term objective of a close-to-balanced budget, consistent with a faster reduction of the public debt-to-GDP ratio. Reducing the debt burden is indispensable to enlarging the range of our fiscal policy options and rebalancing growth and equity objectives in a framework of fiscal stability.

The deterioration of the world economic outlook, combined with some domestic uncertainties, has dampened the Italian economic cycle. The forecast for real GDP growth has been reduced to 1.8 percent in 1998. We still expect substantially higher growth in 1999, about 2.5 percent. More crucially, we are confident that sound macroeconomic policies and pervasive structural reforms will boost the long-run growth perspectives of the Italian economy. In this way, therefore, Italy will contribute to the momentum of the European economy and play its role in the world recovery.

However, this is not a time for complacency. We must now focus our efforts on addressing Italy's most serious problem: the high level of unemployment. Unemployment, as its territorial distribution reveals, is the result of a deep regional imbalance.

Fighting unemployment, therefore, demands bridging regional differences and harmonizing still distant economic realities. This requires encouraging the south in its effort to grow, removing bureaucratic obstacles, fostering the development of human capital, increasing the skills of the labor force, and providing an adequate infrastructural network. Italian economic development in the past decades has been based on a process of pervasive diffusion of economic activity and new entrepreneurship from west to east, from north to south. Continuation of this positive process will not only guarantee the development of the south, but also represent the foundations of a sustained and prolonged growth for the country as a whole.

Doing this is not simple. There is no single, ready-made solution. Instead, our development strategy has to be based on a variety of policy instruments: a more active and high-quality program of public investments; an enlarged financing program to encourage the birth of new firms; and improved coordination among central government, local authorities, and the private sector in designing programs and selecting projects. As in the past, it must be anchored to a solid social contract. The 1999 budget assumes particular relevance in this context. More resources will be devoted to employment growth and solidarity goals by lowering fiscal burdens, stimulating investments, and supporting the poorest.

Increasing market confidence in our policies has reduced the interest rate premia paid on government securities. This process will also find its natural conclusion in the short-term segment of the interest rate curve with the birth of the euro in January 1999. Reduction of tax evasion and tax erosion—which is one of the effects of the recent fiscal reform—has already allowed a lightening of the burden of taxpayers, including the corporate sector, in 1998. The wide-ranging benefits of tax reform will become even more evident in the subsequent years. Public administration reforms, privatization of state enterprises, deregulation, and liberalization will continue to make our markets for goods, services, and credit more competitive.

To conclude, economic policy in Italy will continue to follow the "new policy course" based on social dialogue, macroeconomic stability, and deep-rooted reforms that have helped reshape the role of the state in the Italian economy and set the basis for sustainable economic growth. In Italy, as everywhere else in the world, economic development must be the means to unite peoples and regions. Therefore, we all have the responsibility, political and moral, to ensure not only that growth is stable, but also that it is shared by all.

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

Kiichi Miyazawa

May I begin by saying what a pleasure it is for me to address the fifty-third Annual Meetings of the World Bank Group and the International

Monetary Fund. Before moving to my remarks on policy, I would like to extend a warm welcome to the Republic of Palau, which has joined both the Fund and the Bank since last year's meeting.

State of the World Economy and Policy Coordination

Let me begin by reviewing the state of the global economy. Today the world economy is faced with major risks and challenges. In Asia, a region that has experienced a period of great pain since last year, convincing signs of recovery are yet to appear. In the meantime, another currency crisis started to unfold in Russia this past summer, triggering turbulence in the foreign exchange and financial markets elsewhere, such as the Latin American economies. The economic turmoil in emerging as well as transition economies since last year has indeed demonstrated the risk of a serious deflationary spiral of the entire world economy.

At home, the steep downturn of the Japanese economy became obvious last fall. Despite steady implementation of the latest economic policy package, the largest ever, and other measures, our economic situation is still extremely severe. Considering this and also the current state of the world economy, the government of Japan is fully aware that it is imperative to put its economy on the path of recovery and steady growth. Our government will continue to make appropriate policy responses, including the implementation of a range of new measures put forth by the new administration.

With regard to foreign exchange, we are of the view that the excessively undervalued yen will do no good, not only to the Japanese economy but to the world economy as a whole. Let me make it clear that the government of Japan will not accept the excessively undervalued yen.

Aiming at the Rebirth of the International Financial System

For a little more than a year, it has been at the top of our agenda to stabilize the markets in emerging economies that are exposed to dramatic capital movements on an international scale. As the core institutions for addressing such an issue, the International Monetary Fund and the World Bank Group have undoubtedly played a vital part in these global efforts. However, with continued market turbulence in many parts of the world, the role and function of the two institutions—which together have long served as one of the linchpins for the postwar world economy—need to be reexamined.

The world today is vastly different from what its leaders who gathered at Bretton Woods in 1944 anticipated. The whole idea of free trade and foreign exchange transaction under the fixed exchange rate regime was indeed instrumental in postwar restoration and progress of the world economy. What confronts us today, however, is a different realit—a reality in which markets can fall prey to large-scale capital movements that are abrupt and flowing across national boundaries.

Expanding the public sector investments in developing countries by mobilizing public funds, which is one of our missions, has been dwarfed in the wake of the unstable yet increasingly large volume of private capital flows and continued poverty.

Over half a century after the historic conference at Bretton Woods, we all must recognize that the world economy has a totally new landscape. Thus, I believe it is time we returned to basics and reviewed the purpose of the Fund and the Bank, and it is time for the rebirth of the international financial system.

Before reviewing what the Fund should be, however, I must point this out. I believe that economic management and development strategy that makes the most use of the market mechanism, which has long been promoted by the Fund, is still essentially valid. Ensuring greater exposure to a market mechanism, thus increasing economic efficiency, will continue to be a major policy priority for many of the developing and transition economies. As the basis of a market system, they must improve regulatory and accounting systems, maintain sound financial systems, and strengthen supervision of financial institutions for appropriate risk control. However, given the fact that the latest turmoil in the monetary and financial markets in the emerging economies since last year is due in large part to the abrupt flows of short-term funds, we need to consider how to respond to the short-term or the speculative movements of capital.

Ever since December 1994, when the Mexican crisis began, we have been keenly aware of the risks associated with the modern market economy, where instant, large-scale capital movement can take place. That is why the Fund has initiated its effort to improve transparency to help markets make rational judgments, and has strengthened surveillance with the aim of helping prevent crises.

While such an effort is of course needed, it is far from sufficient. No matter how transparency is improved, and no matter how surveillance is strengthened, crises can still occur. To address the challenge, the Fund must face up to the reality that there are cases where the benefits of short-term capital movements can be surpassed by their risk and cost. I believe the Fund should then make further efforts in four areas.

First, as has often been pointed out lately, capital account liberalization must be implemented with appropriate sequencing. Liberalization of direct investment and long-term capital flows, for example, must precede liberalization of short-term capital flows. What must also come first as a precondition is to have a sound and developed financial sector, responsible fiscal and monetary policies, and adequate depth of the national economy.

Second, monitoring of international movements of capital must be strengthened at both ends—creditors' and debtors'. Particularly with large-scale, international institutional investors, such as hedge funds, we should perhaps consider requiring them, based on international coordination, to provide information on their investment behavior.

Third, in capital recipient countries, it is essential that the authorities fully recognize that their corporate as well as financial sectors are faced with risks that accompany foreign capital inflows, such as foreign exchange risk and the risk associated with maturity mismatch. To this end, the government in each recipient country must also enforce a prudential rule when and where it is needed.

Finally, we need to consider some effective measures to protect the emerging economies, which are faced with excessive inflows of short-term capital and capital flight, from the turmoil resulting from such abrupt capital movements. Among the so-called capital controls, there are some that might lead to hampering useful capital inflows, such as direct investment, by eroding investor confidence. Some are either so discretionary or so arbitrary that they might undermine the efficiency of the national economy. So, while taking all this into account, I request that the Fund further study what sort of measures should be taken.

Economic adjustment programs, the core of the IMF system, also require a thorough review. IMF-supported adjustment programs have played a significant role in promoting appropriate macroeconomic policies and structural reforms in each country, while underpinning the country's effort with financial assistance. But, we must not forget that the international environment in which the Fund operates has changed dramatically. While limited capital movements and fixed exchange rates were the norm when the institution was conceived, they are now giving way to free capital movements and flexible exchange rates.

For the Fund to better adapt to the new environment and make its programs even more significant, further improvement must be made on several accounts. First, on a macroeconomic policy level, there are cases where the Fund's traditional prescription that combines fiscal balance improvements with tightening of monetary policy is not appropriate. I say this because in many cases nowadays, a currency crisis, or international payment difficulties, does not stem from current account deficits, which used to be the cause initially anticipated in the Bretton Woods system: it derives from a change in confidence and the resulting rapid deterioration in capital accounts. Asking a country with a fiscal surplus to tighten further, or asking a country to take a high interest rate policy for the sake of exchange rate protection, could end up with more negatives than positives—inviting a downturn in the economy and further eroding confidence.

The second point is related to exchange rate regimes. As we have witnessed in recent events, maintenance of fixed exchange rates, on the one hand, can be taken as a government guarantee against exchange rate risk, thus leading to excessive inflows of short-term capital. On the other hand, a hasty shift to floating exchange rate regimes following the eruption of a crisis may only invite a free fall of the exchange rates. With these lessons in mind, a further effort must be made to identify appropriate exchange policies to be incorporated in IMF-supported programs.

Third, capital account flows must not be liberalized too quickly without fully taking into account the circumstances of each country. Recognizing that there can be a case that requires some measure to protect a country when the country is faced with abrupt capital movements, the Fund should think together with the local authorities as to how they might avoid taking unilateral measures which will undermine investor confidence, how they might avoid putting an unnecessary burden on the national economy, and how they might incorporate such measures into the IMF-supported adjustment programs.

Fourth, the way in which structural reform is being dealt with in IMF programs deserves further consideration, even if the reform itself is necessary. Take banking reform. When, for example, a country is not equipped with preconditions for reform such as a deposit insurance system, the Fund should perhaps be more considerate of the timing of implementation and its social impact. Likewise, the Fund should recognize that the modality of the market economy can be diverse, reflecting the history and culture of each country as well as its stage of economic development.

In this context, the Fund should perhaps reflect on the design of the past IMF-supported programs. The IMF may have damaged its own credibility when it demanded rather hastily program conditionality on structural measures that were neither necessary nor appropriate in the program design.

Finally, as we have witnessed in a recent series of crises in Asia in particular, the private sector now plays a central role on both the creditor's and the debtor's side. Hence, we must make even more sure that support from the public sector, such as the IMF, not be used as a bailout of the private sector. From the viewpoint of preventing such a moral hazard, the Fund should consider the involvement of the private creditors in formulating an IMF-supported program, for example, by maintaining their exposure to that program country.

Now to the World Bank. Traditionally, its mission has been to provide developing countries that could not readily raise funds in the market with the long-term capital necessary for their economic development. However, as the flow of private capital from industrial countries to a number of Asian and Latin American countries expanded in the 1990s, the focus of the World Bank operations also shifted from development assistance through infrastructure provision to other areas, such as education, insurance, population, and the environment.

The economic turmoil triggered by the Asian currency crisis last year has made it all the more difficult for us to help developing countries achieve economic growth and to reduce poverty. For the countries in East Asia, this meant a major turnaround. For the 20 years that preceded the crisis, these countries enjoyed high and steady economic growth, accomplished a fairer distribution of wealth, and succeeded in reducing poverty. Now, their economic performance has started plummeting, the unemployment rate has kept climbing, prices have risen, and public spending has dropped. All this means a serious impact on the people, particularly those in poverty.

Take Indonesia, where the poverty rate had dropped to 11 percent of the total population, or 22.5 million in number, by 1996. The economic crisis has affected the lives of people, first in urban areas and then in rural areas. As a result, the number of people who live in poverty now is said to be 3.5 times as many as two years ago.

Against such a backdrop, reformulating the Bank's mission and the way in which it provides assistance is now one of the most urgent tasks. In the event of a crisis driven by abrupt and large-scale capital movements, it should be a significant mission of the Bank, I believe, to work with the Fund to stabilize the market through prompt supply of funds, as it did for Korea late last year. In such a case, close collaboration with the Fund is of course essential. But, since the World Bank Group is equipped with functions of its own to raise funds from the market and to guarantee private capital mobilization, I request that the Bank consider a new scheme of assistance that will capitalize on these functions.

Furthermore, to address a range of new problems associated with a crisis, the Bank must promote social stability and the fight against poverty by implementing appropriate structural programs. For that, it is essential for the Bank to collaborate with the Fund in dealing with structural problems in the financial and corporate sectors. Alongside this, it is even more essential for the Bank to secure basic social spending, for example, on education and hygiene, and to protect the most vulnerable group in society, thus contributing to social stability. The social investment project which the Bank has recently approved for Thailand is an exemplary case, and Japan stands ready to support such an effort by the Bank in various ways.

In dealing with poverty and other emerging social problems, the role of the IDA is extremely important. I would like to make a strong request that IDA address these issues in the Asian region in a prompt and proactive manner, and reflect it in its twelfth replenishment.

Even when we ourselves are in the midst of a crisis, we must not forget our support for countries in great distress, such as the heavily indebted poor countries and the post-conflict countries. For its part, Japan will continue to support such efforts of the World Bank and other international financial institutions.

For the international economic community faced with mounting problems and challenges, the roles of the IMF and its sister institution, the World Bank, are absolutely vital and can never be replaced by others. Thus, to make further improvements in their functions is, I believe, the responsibility of the international community as a whole. While I welcome the reform effort of these institutions to strengthen their coordination and to increase transparency, a fundamental review of the IMF–World Bank system, including the points I have made earlier, is necessary in order to breathe new life into the international financial system.

I would also like to take this opportunity to emphasize that a strengthened financial footing of the Fund is indispensable for it to continue to provide countries in difficulties with appropriate financial assistance and to be able to perform its role as the core institution of the international financial system. Thus, I would like to urge those countries that have yet to notify their consent to the ratification of the NAB, as well as the quota increase under the Eleventh General Review, to act promptly on these issues.

A New Scheme to Support the Asian Currency Crisis and Internationalization of the Yen

May I draw your attention to our response to the Asian currency crisis that started to unfold in Thailand in July 1997. To address the problem under the international framework of the IMF, the World Bank, the Asian Development Bank, and the countries concerned, Japan has committed to the largest bilateral support, and has steadily implemented it. As a result, exchange rates are more or less stabilized in these countries, and one might say that many of them, if not all, have gone through the immediate impact of the crisis. Turning to real economies, however, these countries are still faced with difficulties: corporate performance that is dramatically deteriorating, an unemployment rate that keeps climbing, and prices that continue to increase.

Yet, the Asian strengths are still there. Even the latest currency crisis has failed to shatter their strong fundamentals, such as high savings rates, abundant human resources, priority in education, or their firm commitment to economic development. So, once they have overcome the difficulties that now exist, I believe the Asian countries will be back on the road again to the further growth and well-being of the people.

We all must help these countries overcome economic difficulties and, in doing so, contribute to the stability of the international financial and capital markets. In this context, I would like to present a new scheme of financial assistance totaling some $30 billion to be provided as Japan's bilateral support. Under the scheme, as I will detail in a minute, $15 billion will be provided as mid- to long-term financial assistance for the recovery of the real economy of these Asian countries; another $15 billion will be reserved as provision against short-term capital needs that might emerge in the course of promoting economic reform.

For the Asian countries affected by the currency crisis, capital needs are enormous. They need capital for corporate debt restructuring in the private sector. They need capital to make their financial systems stable. They need capital for the socially vulnerable. They need capital for a stimulus package. They need capital to address a credit crunch.

In response to such mid- and long-term capital needs, Japan will provide assistance to facilitate fund-raising by these Asian countries. At the same time, we will see to it that the Tokyo market is put to better use and that the reflux of our capital is promoted. Specifically, the first thing we plan to do is to provide the Asian countries with assistance in the form of Export-Import Bank (EXIM) loans and yen credit.

Guarantee functions must then be fully drawn upon in order to facilitate fund-raising by the Asian countries in international financial and capital markets. For that, the guarantee functions of our EXIM will be utilized. I request, at the same time, that the World Bank and the Asian Development Bank provide aggressive guarantees for the Asian countries' borrowing as well as fund-raising through bond issue. It is hoped that in the long run the establishment of an international guarantee institution with a prime focus on Asian countries will be seriously considered.

Japan will also establish an Asian currency crisis support facility. By providing an interest subsidy, for example, the facility will allow borrowers to raise funds at a smaller cost. This facility will feature a framework which is open to the other countries in Asia, so should any country agree with this cause, and wish to take part, that would be most welcome.

Further, in collaboration with the World Bank and the Asian Development Bank, Japan will endeavor to provide financial assistance for these Asian countries. In response to the capital needs, in particular, for corporate debt restructuring in the private sector and for stabilizing financial systems, I request that the World Bank and the Asian Development Bank provide the maximum possible assistance. In that event, Japan will join their effort by providing cofinancing.

Finally, on technical assistance, to help the Asian countries implement comprehensive measures for corporate debt restructuring in the private sector and for stabilizing financial institutions, I request that the World Bank and the Asian Development Bank provide the needed technical assistance by fully drawing upon the Japan Special Fund at each institution. For its part, Japan stands ready to provide technical assistance, according to the circumstances of each country.

Should a need arise for short-term capital in the Asian countries to facilitate trade financing during the process of steady implementation of economic reform, Japan will have short-term capital ready for the need. This will include a method of increasing the recipient country's foreign exchange reserve by using swap transactions. To implement all these measures, Japan intends to collaborate closely with multilateral development banks and other countries, particularly the countries in the Asia and Pacific region.

As has been often pointed out, overdependence on the U.S. dollar was obviously one of the causes of the currency crisis that erupted in

Asia last year, and this has led many countries in the region to look to the yen to play a greater role. Recognizing this, the government of Japan is now considering from a broader perspective some specific measures to improve the environment for the yen to be used more actively by market participants in the region and beyond.

Three months from now the euro will be introduced. A greater role for the Japanese yen, as an international currency together with the U.S. dollar and the euro, should contribute to the stability of the international monetary system.

Faced with major risks and challenges, the world economy is now at a turning point. It is about time we made a new step forward to build a new system in response to the new reality, while fully drawing upon the wisdom the international financial community has accumulated over the years. Like my fellow Governors, I will play my part in aiming at the rebirth of the Bretton Woods institutions. In my Statement, I made it clear that Japan is determined to make further contributions to its neighbors. In the future, too, Japan will continue to join hands with all the countries that are represented here today, and in particular with the Fund and the Bank, to find our way out of the difficulties that lie ahead, and to regain growth momentum for the world economy.

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

Kyu Sung Lee

Allow me first to extend my warmest welcome to the Republic of Palau as a new member of the Fund and the Bank. I would also like to express my appreciation for all the assistance extended to Korea by the IMF, the World Bank, and member countries.

Ten months or so into the IMF program, Korea has made remarkable progress in economic reform, and will continue to do so. Our reform strategy is to establish soundness with economic restructuring, and to enhance efficiency with economic liberalization and market discipline. Most recently, Korea completed the first major round of financial sector restructuring. Korean banks cleaned up their balance sheets and were recapitalized to obtain a sound bank status, with Bank for International Settlements ratios of 10 to 13 percent. The Korean government has supported these rehabilitation efforts by means of fiscal resources of approximately $27 billion. The capital market, including foreign direct investment, has been dramatically liberalized. Also, foreign exchange transactions will be progressively deregulated starting in April of next year, and full liberalization will be completed by the year 2000.

As to the corporate sector, firms are taking steps to reduce debt leverage, and are working with their creditor banks to devise corporate workouts, most of which will be completed by the end of this year. Internationally accepted standards in corporate governance, transparency, and accountability have already been instituted.

On the labor front, labor market flexibility was legally enacted, while the social safety net was correspondingly expanded. A tripartite dialogue among labor, business, and government has enhanced business-labor relations and ensured fair burden sharing.

All of this reform progress will help mitigate the severe credit crunch and economic contraction, which have been our greatest challenges. The greatly improved soundness of the banking sector and the ongoing corporate restructuring will help normalize credit flows. Korea's current flexible interest rate policy and fiscal expansion will cushion economic contraction. In light of this, the Korean economy is expected to bottom out next year with mild positive growth and, from the year 2000, will have restored growth potential.

Simply listing our recent accomplishments belies the difficulties we may have to face up ahead. The current financial turmoil threatens not only the health of financially sound nations, but world economic growth as well, potentially making it even more difficult to contain the crisis at hand. For this reason, immediate steps in macroeconomic policy coordination must be taken at the global level. In this regard, Korea highly welcomes the recent interest rate cut by the United States, as well as the emphasis that other leading countries are placing on sustainable growth policies. Moreover, we hope that Japan's fiscal stimulus package will soon turn around its economy and promote recovery in the region.

Equally important is that we expand the options for afflicted countries in dealing with liquidity shortages. Given that the IMF has limited resources, we need to supplement its capacity for liquidity support. Specifically, we need new arrangements that enable crisis-hit nations to quickly regain access to the capital market. President Clinton's new proposal is a positive step forward in this regard. Also, the New Miyazawa Initiative will help countries in the Asian region by providing much-needed capital.

In the medium term, the international financial architecture must be updated for greater global stability and soundness. Enhanced surveillance, improved standards in transparency, and an effective early warning system will all go far toward warding off risks of contagion. We must also address the intrinsic instability associated with short-term capital flows. Korea fully supports the efforts made by the IMF along these lines, and endorses the current discussions by diverse fora on such issues of global concern. It is imperative, though, that relevant policy decisions be balanced so as to reflect the experiences of crisis-hit nations.

In closing, I must say that the IMF and IBRD have been an integral part of Korea's progress to date. The case being such, I feel particularly justified in supporting proposals for strengthening the Bretton Woods institutions. Let us now put our best efforts together not only to quickly overcome the current crisis, but also to enter the new millennium with a healthier and more stable global financial system.

Statement by the Governor of the Fund for the Lao People's Democratic Republic

Cheuang Sombounkhanh

This fifty-third Annual Meetings of the World Bank and the International Monetary Fund are convened at the juncture where the economic and financial crisis, which started in Asia more than one year ago and spread in a chain reaction manner to other regions of the world, is in the process of being addressed in order to restore stability. This meeting is therefore considered a very significant forum for members of the two institutions to gain more insight on the crisis and to learn how the problems have been tackled by the affected countries. It also provides an appropriate opportunity to assess the effectiveness of the assistance given by the Bank and the Fund to the crisis-affected countries during the past year. Members can also bring forward viewpoints and recommendations on how to strengthen the role of the two institutions in the era of globalization, to ensure a stable environment conducive to sustainable growth of the world economy upon entering into the twenty-first century.

Regarding the performance of the Lao economy in 1997, growth was registered at 6.7 percent, which falls within the 6–8 percent annual target range, attributed mainly to the marked growth in the agricultural and service sectors. The former grew by 5.8 percent, 3 percent higher than in 1996, mainly in rice production; while the latter grew by about 10 percent, 2 percent higher than in the previous year, largely owing to the strong growth in telecommunication and tourism areas.

However, the strong economic growth performance was accompanied by rising inflation, particularly in the latter part of 1997. This was partially due to the large depreciation of the kip vis-à-vis the dollar, as a result of the regional crisis erupting during mid-1997, which led to large increases in the prices of imported goods. Furthermore, internal factors need to be recognized, namely, the rapid credit expansion to the private sector (79.1 percent) and the increased public investment to develop the infrastructure needed for the agricultural sector. The latter is necessary for the attainment of self-sufficiency in rice and food supply, and also in creating conditions conducive to the sustainable growth of the economy in the future. Furthermore, the regional crisis also has adversely impacted the country's export performance and the flow of foreign direct investment capital. The resulting foreign exchange scarcity therefore adds pressures on the exchange rate and inflation.

To address the problems of high inflation and exchange rate depreciation, corrective measures have been taken during the early months of 1998. These include the use of such indirect instruments as the issuance of central bank securities and treasury bills with higher interest to draw excess liquidity into the central bank; and the issuance of a guideline by the central bank on the increase of the minimum deposit rate by banks to encourage commercial banks to raise their interest rates, aiming at promoting deposits while discouraging borrowing. In addition, credit ceilings have been reintroduced to restrict credit expansion, while steps have been taken to address the problems of bad debt and operational weaknesses of the financial institutions to increase soundness and efficiency thereof. On the fiscal front, measures have also been taken to accelerate revenue collection, while restricting spending.

In view of creating the environment conducive to sustaining high growth with macroeconomic stability, thus improving the quality of life for our people over the medium and longer term, the Lao government resolves to continue investing in the development of the country's economic infrastructure. Emphasis is placed primarily on agriculture to ensure sufficiency in agricultural products for consumption, agroprocessing, and exports. This will help create a firm base for our national economy, through linking agriculture to industry and services. As a consequence, the agrarians, which represent over 80 percent of the total population, will have higher income; the trade and current account balances will be improved; and the economy will be able to accumulate more domestic savings, thus enabling the Lao People's Democratic Republic to gradually become self-sufficient in financial resources.

Our country is well endowed with water resources which in the past were used mainly for hydropower production. In order to further enhance the exploitation of this economic potential to bring greater benefits to our people, the government will pursue the policy of comprehensive development of the said resources. In this connection, the exploitation of water resources for hydropower production will be linked to the development of irrigation and other productive purposes, as well as for the improvement of the quality of life of the population, while preserving the environment. This will help ensure the sustainable development of our economy.

At this point, I would like to emphasize the important role that the World Bank and the International Monetary Fund play in helping the least-developed countries of the world to build their economic base to enable them to be part of globalization. Presently, great disparities continue to exist in the levels of development among countries of the world. In order to help place the least-developed countries on the path of fast development, we maintain the view that the Bank and the Fund should further broaden their important role. In this connection, their assistance to least-developed countries should be focused on doing research, giving advice, providing financial support, and creating conditions for marketing to enable those countries to effectively exploit their various economic potentials in order to expedite the process of development.

In so doing, the least-developed countries will be able to grow and exit from poverty more expeditiously, while also being able to take part more actively in the process of international cooperation and development. Furthermore, we are also of the view that the two institutions should support the least-developed countries in creating quality human resources, by offering more scholarships for higher education and organizing training courses in various areas, and also through the process of production technology transfer. We believe that if assistance to the least-developed countries given by the Bank and the Fund focus more on the development of the countries' economic potentials and human resources, the role of the two multilateral institutions will become more prominent, while further enhancing the cooperation for the mutual benefits of the parties concerned.

In closing, I would like to express sincere thanks and appreciation to the President of the World Bank and the Managing Director of the International Monetary Fund for the support and assistance accorded to our country in recent years. In addition, we would like to extend to the President and the Managing Director, as well as the entire management and staffs of the Bank and the Fund, our best wishes of health and success in accomplishing the very important and highly honored mandate of each respective institution.

Statement by Governor of the Bank for the Socialist People's Libyan Arab Jamahiriya

Mohamed A. Bait Elmal

On behalf of my country, Mr. Chairman, I am honored to offer congratulations on your selection to chair this year's meetings of the Board of Governors, which I hope will meet with great success under your leadership.

The negative trends in the world economy have engendered the lowest performance level in many years, with growth at only about 2 percent and the collapse of financial markets in a number of countries. This has had an adverse effect on capital flows and investment in many countries, particularly the developing countries.

The state of the world economy reflects the financial crisis that has devastated the countries of Southeast Asia since the end of last year, the negative effects of which have spread to other countries. The international financial institutions and their member countries, particularly the industrial states, must work together to contain this crisis and keep it from spreading to other countries, so as to prevent the collapse of the international financial and monetary systems. The countries suffering from financial and monetary crises must also shoulder their responsibilities and take the necessary actions to treat the causes of these crises.

The principal causes of the financial crises affecting certain countries can be attributed to insufficient surveillance by the financial institutions and their inability to foresee these crises. It is incumbent upon the IMF to monitor economic developments throughout the world and to intervene at the appropriate time to prevent the occurrence of similar crises.

Despite the efforts of the Bretton Woods institutions to correct trade imbalances, promote development, and reduce debt burdens through the HIPC Initiative, especially in the least developed countries, today we find that the gap between rich and poor countries is wider than ever. This has led to an increase in the number of the world's poor and a steady deterioration in the level of social services, particularly health and educational services.

Libya continues to suffer from the sanctions imposed by the UN Security Council's resolutions, including the prohibition of flights to and from Libya and the sale of equipment and spare parts for the oil industry, the freezing of Libyan assets in foreign banks, and limitations on financial facilities. These sanctions are in conflict with the spirit and principles of the Bretton Woods institutions and other international organizations. They are also in conflict with the requirements of trade liberalization, free capital movement, and the trend toward globalization that we are witnessing today. These sanctions have had an adverse effect on both the economic and social development of Libya. In addition to the social and human losses, which cannot be valued in monetary terms, sanctions have imposed material losses on the Libyan people of at least $23 billion to date. My country is determined to find a just and rapid solution to the Lockerbie issue, within the framework of international law and conventions. I stand before you today, asking the international community and its various organizations—and foremost among them the Bretton Woods institutions—to try to understand our position and endeavor to relieve the suffering of the Libyan people by reviewing these sanctions and eventually eliminating them.