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Statement by the Hon. KASPAR VILLIGER ,
Alternate Governor of the Fund for SWITZERLAND ,
at the Joint Annual Discussion

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Alternate Governor of the International Monetary Fund
for Switzerland, at the Joint Annual Discussion

We all agree that the present situation on the financial markets gives rise to serious concern. Several countries already suffered considerably under the current problems. We are here to discuss ways to resolve the crisis. I am afraid, however, that our deliberations have not contributed to calm the markets. In my view, many speakers tend to over-dramatize the situation. Around two thirds of the world economy are in good health. In addition to that, the downward correction of the stock markets can be viewed as a normalization of exaggerations from the past. We must not create a depressed psychological climate that in turn could negatively affect the sound parts of the global economy. We need the growth of these economies to stabilize the current situation.

It is true that the present crisis has brought to light a number of structural problems in international financial markets. The problems have been identified. They have now to be addressed thoroughly and rapidly. However, there are no simple solutions and no quick fix. We will have to make strong efforts to solve the problems. I would like to propose a strategy comprising five elements:

- *First*, each country has to keep its own house in order and implement sound policies. Financial support should be given only to countries that in spite of sound policies have run into difficulties.
- *Second*, market participants must be in a position to assess the risk involved in their investments. Therefore we need to enhance transparency.
- *Third*, it is imperative to involve private creditors in the solution of financial crises.
- *Fourth*, all this has to be achieved within the framework of the existing institutions. While these institutions must undoubtedly adapt to new challenges, they need to refocus their activities on their original mission.
- *Fifth*, before looking for new resources and facilities, the quota increase and the NAB have to be implemented.

Mr. Chairman, let me explain some of these elements in more detail:

Increasing transparency. The ongoing efforts to increase transparency in all its dimensions must be stepped up. This is crucial to enhance the surveillance capability of the market. This in turn will help avoid abrupt changes in risk perceptions. Furthermore, transparency increases the accountability of the government and reduces the possibility for corruption. Through the development of appropriate codes and standards the IMF can play an important role in the promotion of policy and data transparency. At the same time, further steps should be taken to improve the transparency of the decision processes and policy

recommendations of the IMF itself. The Bank can contribute to these efforts by increasing its focus on good governance and corruption in its Country Strategies and through appropriate project design.

Strengthening the financial system. The IMF and the World Bank need to continue to give this issue high priority. The task is too complex to be mastered by one institution. Therefore, the Fund and the Bank have to cooperate closely. I welcome the efforts and specific proposals that have been made to enhance this cooperation.

Involving the private sector. We must work hard to find solutions to involve the private sector in resolving financial crises. In searching for a solution, we should try to include all actors, including the private sector. This is necessary not only for equity reasons or on grounds of the social and political acceptability of the actions of the Bretton Woods Institutions. It is also important because of the lack of public resources to deal with liquidity crises in globalized financial markets. However, the scope for a voluntary involvement of the private sector is limited. Unilateral debt moratoriums may therefore be unavoidable. A backing by the Fund could help to minimize the damage of such measures and ensure that the debt restructuring process be as orderly as possible.

Refocusing on the original mission. The recent crises have required massive liquidity support from the IMF, the World Bank and member countries. Even for the IMF such use of resources is difficult to reconcile with its mission. It should exercise primarily a catalytic role. Emergency liquidity support is even more difficult to justify in the case of the World Bank. Clearly, this is not the primary responsibility of the World Bank. Its main focus in crisis management should be on measures to address the social consequences of the crisis on the poorest and on the subsequent more far-reaching structural reforms.

Securing financial resources. The IMF and the World Bank can take a lead in the prevention and resolution of crisis situations only if they have sufficient resources. The lending in the past year has led to a serious deterioration of the resource bases of the IMF and the IBRD. The IMF quota increase must become effective as soon as possible. The current global situation also makes an enhancement of the IMF's financial safety net essential. Therefore, the New Arrangements to Borrow should rapidly become operational. Furthermore, if emergency financing of the World Bank is to continue, measures must be found to ensure its capacity to contribute. Otherwise, these lending operations could limit available capital for lending to developing and transition countries and increase lending costs. Furthermore, the World Bank's capacity to contribute to IDA and HIPC could be reduced.

To conclude, Mr. Chairman, I want to underscore the fact that the particular attention emerging market economies have received over the past year should not lead us to neglect the other members of our institutions. Smaller

transition countries continue to require the support of the IMF and the World Bank in order to ensure that the initial reform progress maintains its momentum. The same is true for lowest-income countries. Securing the financing of the continuation of the Enhanced Structural Adjustment Facility, IDA lending, and the joint HIPC Initiative must remain at the top of our agenda.

Finally, the Fund and the Bank should be commended for their good work and in particular the prompt response, the negotiation of programs in record times, and for mobilizing the necessary financial resources. The crisis is putting a considerable strain on the staffs of both institutions, and their efforts and achievements must be acknowledged.