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Statement by the Hon. **HOSSEIN NAMAZI**,
Governor of the Bank for the **ISLAMIC REPUBLIC OF IRAN**,
at the Joint Annual Discussion

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Mr. Chairman
Mr. Wolfensohn, Mr. Camdessus
Distinguished Governors
Ladies & Gentlemen

Global economic and financial conditions after the turbulence in emerging markets in 1997-98, which gave rise to fears of a widespread credit crunch and global recession, have now markedly improved, and most of the economies recently in crisis have begun to recover. Economic improvement in economies afflicted by the Asian crisis has been faster and more robust than expected earlier, and the further bouts of financial turbulence in other parts of the world have been effectively brought under control. Nevertheless, many challenges remain to be addressed to ensure that these recoveries are sustainable and that prerequisites for a stronger and more stable growth in the world economy in the next decade are in place.

Now, the concern over the collapse of the international financial system has given way to the need for better policy coordination among the industrial countries to maintain the continuity of orderly economic growth in the world. There are positive signs for the restoration of an atmosphere of trust and confidence in the international financial markets. Despite such a positive development and relative improvement in global financial and economic conditions, those crises, mainly the Asian crisis, have made the international economic environment more difficult and uncertain for developing countries, and the financial flow from international capital markets to developing countries has been cut in half compared to the pre-crisis period. Moreover, access to these resources has become prohibitively costly and limited solely to creditworthy borrowers.

The developing countries are the essential partners of the industrial nations in the globalized world. It is, therefore, incumbent on the industrial countries to work closely with all developing countries, especially with the poorer nations, and to increase the volume of ODA in support of their efforts to eradicate poverty, launch effective policies for sustainable development, and build the economic capacity of their countries. Needless to say, the stability and integrity of the world economy depend on rational relationships between the industrial and developing countries and the political support for the efforts of every developing country that seeks to achieve sustainable development.

Excellencies,

Our meeting is taking place at a time when the dawn of the new millennium approaches and our world is facing pressing challenges in all areas of political, economic,

financial, social, and cultural endeavors. Accordingly, the need to have a holistic and comprehensive approach toward development issues has become more critical, both at national and international levels. The significance of this comprehensive approach has been duly recognized by the Bretton Woods institutions. Many issues that are interlinked with comprehensive and multifaceted economic, social, and cultural development of human societies have made their way onto the agenda of these institutions. These issues are essential parts of human prosperity and well being, such as debt reduction of heavily indebted poor countries, poverty alleviation, strengthening the international financial architecture, management of social dimensions of crisis, and in particular a multifaceted approach, under the theme of “Comprehensive Development Framework”.

The comprehensive approach to development on the conceptual plan is welcomed. However, it should be ensured that this framework does not constitute an intrusion on national decision making. While supporting the need for such a comprehensive approach toward all economic, political, financial, social and, cultural issues, I wish to express my concern over any instrumentalization of this concept.

Now that there is a clear recognition at the international level of the significance of this comprehensive approach, we need to pay attention to the following facts:

1. The main objectives of the founders of the Bretton Woods institutions, according to their Articles of Agreements, were to assist the member countries in the reconstruction and development of their territories and to promote economic cooperation among them. To achieve these objectives, the Bretton Woods institutions offer advisory services that is of the utmost importance. The important point in these efforts lies in the distinction between offering advisory views and dictating a series of inflexible instructions to developing countries with a view to putting their economic house in order.
2. The target audience for the rules and regulations of these institutions has consistently been a set group of member countries, while the issues dealt with by these institutions are very broad and universal, and should target, as a general rule, all members – industrialized or developing. Indeed, a one-sided and selective approach will not serve the above-mentioned purposes and objectives.
3. The chief objectives of the founders of the Bretton Woods institutions were purely economic in their nature and character. It is imperative that these institutions adhere to principles clearly stated in their founding agreements and strive to achieve these concrete objectives. Tainting the decisions of these institutions with political considerations will inevitably lead to imposition of discrimination on certain members, which is neither desirable nor in line with the objectives of these institutions.

4. Differences in the structure of economies and institutional capacities among countries with varying levels of development requires the Bretton Woods institutions to adopt a broader view in advising member countries, and to refrain from forging one-size-fits-all policies. As it has been increasingly realized, the country specific features play a greater role than previously envisaged in determining the set of appropriate macroeconomic policies towards stability and growth. This point should be truly recognized and fully appreciated in dealing with the member countries.

The most obvious policy recommendation that needs to be revisited in the light of recent experiences is the liberalization of the capital account. The recent experiences suggest that the liberalization process should be very cautious and orderly. The member countries should not be advised, let alone pressed, to liberalize their capital account in absence of necessary financial structures and supervisory and regulatory capacity. The structure and capacity development requires time, which in itself varies with the social and cultural foundations of countries. It would also require a substantial amount of financial and technical support from the Fund and the Bank. I would like to reiterate that the Executive Board of the IMF must also carry on very careful deliberations in designing an effective and protective framework, allowing the members to undertake capital account liberalization at their own pace and with full confidence that appropriate safety nets are in place should their economies be subjected to shocks in the process.

We welcome the international support for poverty reduction, and commend the IMF and the World Bank for further progress being made in the initiative to assist highly indebted poor countries (HIPC) and post-conflict societies. It is hoped that by broadening the scope for eligibility under the HIPC initiative and by increasing financing, more substantial assistance to a larger number of poor countries will be made available. We also welcome the efforts made in ensuring adequate funding for the Enhanced Structural Adjustment Facility (ESAF). (The Poverty Reduction and Growth Facility)

Mr. Chairman,

In conclusion, I would like to present a general view of the economic condition in my country. The continuation of global recession and the declining trend in the oil market, particularly the sharper fall of oil prices in the second half of 1998, brought about heavy pressure on the balance of payments and resulted in the carrying over of the budget deficit to the first months of 1999. Nevertheless, the available statistics indicate that, despite the shocks, the nation's economy managed to absorb to a large extent these pressures and the negative effects of these shocks were much less than what we initially expected, mainly due to advance preparations and capacity building, and investments in the past decade.

The preparation of the Third Five-Year Economic Development Plan, which will be implemented as from the next fiscal year, is going through its final stages. Some of the main objectives of this plan are as follows:

- * 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 the private sector;
- * Dismantling of monopolies and promoting of competition and;
- * Establishment of a comprehensive social safety net to protect the most vulnerable groups;

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