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INTERNATIONAL MONETARY FUND
WORLD BANK GROUP
INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
INTERNATIONAL FINANCE CORPORATION
INTERNATIONAL DEVELOPMENT ASSOCIATION
INTERNATIONAL CENTRE FOR SETTLEMENT OF INVESTMENT DISPUTES
MULTILATERAL INVESTMENT GUARANTEE AGENCY

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Statement by the Hon. **VINCENZO VISCO**,
Governor of the Fund for **ITALY**,
at the Joint Annual Discussion

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Mr. Chairman, fellow Governors, ladies and gentlemen,

Global economic conditions justify a certain degree of optimism, since world output is expected to grow this year at one of the highest rates since the mid-seventies (4 ¾ percent) and the steep rise in the oil price has had a limited impact on inflation. Progress continues to be made on a global scale in improving economic management and in promoting structural reforms.

Sound economic policies are the decisive factor in eliminating or containing the remaining imbalances. In the US, authorities must continue to guide the economy towards a soft landing. In Europe, they should avoid pro-cyclical shifts in fiscal policies and foster the process of structural reforms, notably in the labor, capital and product markets. In Japan, the deepening of restructuring efforts in the corporate and financial sectors must be coupled with a continued policy support of the still fragile recovery. In the emerging markets policies need to continue to focus on strengthening economic fundamentals to enhance resilience to external shocks.

We are encouraged by the significant progress that has been made in recent years towards a reform of the international financial architecture, but our task is not completed yet. Our attention should focus on the volatility of global financial markets, and their ensuing consequences for emerging and developing countries, as well as on the inability of vast parts of the world to benefit from the process of globalization.

The Fund, as the guardian of international monetary and financial stability, must be at the center of financial sector issues, whereas the Bank must remain the torch-bearer in the struggle against poverty. But to make our action most effective on both fronts, it is essential that the two institutions further strengthen their collaboration. The experience gained in those areas where this partnership is already at an advanced stage, namely the HIPC Initiative and the Financial Sector Assessment Programs (FSAPs) has been very positive so far and proves how important collaboration is in order to maximize results.

In its own domain, the Fund must continue to pursue prevention as the first line of defense against financial instability. The development and implementation of international standards and, more generally, the strengthening of Fund surveillance is centerpiece to such an effort. Both Fund surveillance and Fund programs are now devoting substantially greater attention to financial sector issues, which have been at the root of many crises in emerging markets. The experience obtained so far with the Financial Sector Stability Assessment program has been very positive. We look forward to the integration of this exercise into the surveillance activity of the Fund and to follow-ups for the World Bank program aimed at institutional strengthening and capacity building.

We strongly welcome the recent agreement to reform Fund facilities. This is an important step in adapting the structure of the Fund financing to the reality of mobile and volatile international capital flows. The strengthening of the Contingent Credit Line (CCL) should boost the incentives to adopt preventive measures, by offering added financial support to countries with first-class policies. Similarly, the modifications in the repurchase policies and in the structure of the rate of charge go a long way in strengthening the revolving character of Fund resources, thereby ensuring that the Fund will have the necessary resources to assist countries with balance of payments difficulties when a crisis strikes.

It goes without saying that we must at the same time refine our tools to manage financial crises, so as to minimize both their disruptive effects on our economies and the moral hazard that is inevitably associated with the use of public resources. The design of a clear framework for the involvement of the private sector is essential: we must strive to achieve an appropriate balance between rules and discretion.

The Fund also has a role to play in preserving the confidence on the international financial system's integrity and transparency. We have supported the work and the conclusions of the FSF, the OECD and FATF, which have examined the role of Offshore Financial Centers (OFCs) within the current system of globalized capital markets, including their relation with money laundering and harmful taxation. The Fund has been forthcoming with regard to the call of the international community to take responsibility for developing and performing assessments of OFCs, and we welcome the Fund's newly established module-approach, which is to be carried out with the help of national and international experts. However, we believe that more can and must be done in this field, particularly with regard to the implementation of the relevant codes and recommendations in these areas, since they have a significant bearing on the stability and the transparency of the financial sector worldwide. The World Bank should contribute to this process within its programs on governance by assisting countries in developing an institutional capacity compliant with international recommendations.

Our second major objective is "making the global economy work for everyone." Our renewed effort at fighting the plague of poverty responds to this guiding principle. Indeed, the enhancement of the HIPC Initiative, endorsed at the last Annual Meeting, is allowing us to address the external debt problem in a manner that is consistent with the fight against poverty. The objectives of providing broader, faster and deeper debt relief for qualifying countries are being met, and we are committed to bringing as many countries as possible to their decision point by the end of 2000, provided that the quality, the strength and the principles of the Initiative are preserved.

The way in which the Initiative has been implemented so far strikes a good balance between two objectives: i) a quick delivery of debt relief and ii) the assurance that resources freed by the Initiative are effectively and transparently channeled towards poverty reduction. We cannot neglect that a continuing commitment to sound policies is essential to ensure that debt relief be effective in promoting growth and reducing poverty. The trade-off between speed and quality should not be allowed to deteriorate while we are progressing with our efforts to ensure that a large number of countries reach their decision point. Only if the relief comes together with an ambitious program of structural reforms and macroeconomic stabilization, and with a credible and comprehensive poverty reduction strategy, can it provide a permanent exit from the debt overhang.

All creditors must be prepared to contribute their fair share and ensure that regional development banks in which they have a stake will also do their parts. Italy's contributions to the initiative have been complemented by a bilateral Debt Relief Initiative that will provide relief up to 100 percent of both official and commercial debt. Cancellation will be granted on condition that the countries involved be committed to the respect of basic human and civil rights, to the peaceful resolution of conflicts, and to the pursuit of social and human development aimed, in particular, at poverty reduction. In order to make significant and lasting progress in the fight against poverty, the debt relief initiative should go hand in hand with actions on two equally important fronts. First, the official concessional assistance provided by bilateral donors or multilateral institutions should be reformed according to the following broad principles: better donor coordination and policy harmonization, performance-based allocations, and better alignment between conditionality and country priorities. We support the comprehensive framework developed by the World Bank and the new lending instrument aimed at strengthening the programmatic approach to poverty reduction. The second front is that of trade liberalization. Only a wider and deeper access to the markets of industrialized countries will provide the poorest countries with the means to permanently exit from the debt trap and from dependency on development assistance. We need to press ahead with the launching of a new round of trade negotiations within the framework of the WTO, that would result in a substantial liberalization of trade with poorest countries.