

BOARDS OF GOVERNORS ● 2000 ANNUAL MEETINGS ● PRAGUE, CZECH REPUBLIC

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

J

Press Release No. 38

September 26–28, 2000

Statement by the Hon. **JEAN-CLAUDE TRICHET**,
Alternate Governor of the Fund for **FRANCE**,
at the Joint Annual Discussion

**Statement by the Hon. Jean-Claude Trichet,
Alternate Governor of the Fund for France,
at the Joint Annual Discussion**

Mr. Chairman
Mr. Wolfensohn
Mr. Köhler
Governors
Ladies and Gentlemen

According to the latest forecasts of the IMF, we may expect sustained global growth, notably in Europe. Within the framework of the growing interdependence of our economies, our collective goal must be to enhance non-inflationary sustainable growth. Such a favorable environment should not tempt us to defer implementation of new policy orientations for the prevention and resolution of financial crises. Finally, more than ever, we must be vigilant that the poorest countries fully benefit from this progress.

1 -- More balanced growth should be our collective goal

The macroeconomic situation in the Euro zone is positive. This year, we have had sustained growth of over three percent and this trend should continue next year. For France, the 2000-2001 growth forecasts bear witness to the dynamism of our economy.

a. Enhancing sustainable and non-inflationary growth

Growth must be used in Europe as a whole to reorganize public finances and bring them to equilibrium. This will allow for better preparation of the challenges linked to the aging of our societies. Thus, in 2000, the deficit of the French public administration should be 1.4 percent of GDP when our initial target was 1.8 percent. For 2001, our objective is 1 percent of GDP.

From now on, the question for us Europeans will be to perennialize this growth cycle, that is to say, to maintain a high level of activity growth without causing the outbreak of inflationary pressure. As a result of moderation in labor costs, these pressures are being contained, providing one corrects for the direct effects of the rise in crude oil prices on the price of fuel. Moreover, the development of new technologies, which we are encouraging at the European level in the wake of the European Council of Lisbon, should translate into an acceleration of productivity likely to raise our non-inflationary growth potential. This will be critical to enable supply to respond to the dynamics of demands without stress. I am thus optimistic, even if we must, of course,

stay watchful given the uncertainties surrounding the direct and indirect effects of the rise in oil prices and the pressures on production capacity.

The Governments have been equally committed to accelerating structural reform. Tax reform and improvements in the functioning of labor markets as well as continued opening of a number of sectors to competition, should stimulate business supply of goods and services and household supply of labor. These reforms also favor the spread of new technologies. And they pave the way toward a dynamic, modern, full employment, non-inflationary economy.

b. Stabilizing the oil market

In this regard, I want to reiterate that the impact of current oil prices is of deep concern to France as well as the whole world. The abrupt rise in the oil prices over the last few months has raised worries in public opinion, but it must not derail expectations of economic agents and put public budgets in danger of new imbalances.

What are the causes of this surge in oil prices? The main factors are well-known : recovery of global demand, insufficient productive capacity due to a period of low prices, and, finally, a market environment in which uncompetitive mechanisms have provoked price increases beyond those which the producing countries themselves would judge desirable. We have strayed far from a rational market equilibrium, and it is our duty to reset this market's reference points.

Let us be vigilant that this temporary excess of volatility does not transform itself into a new global shock. This being said, we should keep especially in mind, the potentially adverse consequences for the least advanced countries.

We are all determined to see oil prices return to a level of stability – I insist on this notion of stability – in conformity with a good balance between the interests of producing and consuming countries. Let us agree today to define the terms of a common diagnosis and to act in such a way, that tomorrow, through a fruitful dialogue, after having found together solutions within our reach, the market will regain equilibrium.

2 -- The progress thus far achieved in the reform of the international financial architecture must be fully put into practice

Over the last three years, we have made great strides in international financial regulation, but we must avoid that improvement in the world economic situation could lead to a certain complacency.

a. Put into practice what has been agreed to

Among most significant advances, I will mention the development effort, the dissemination and evaluation of Standards and Codes, and the pilot experience on

Reports on Observance of Standards and Codes (ROSC), in which France is participating. But, experience shows that rules are indispensable to efficient market functioning.

We must also implement the progress already achieved in involving the private sector, but also in adapting the facilities of the IMF.

As to private sector involvement, like you, I welcome the fact that private financing is now the major source of financing for developing countries. Experience has now shown that a framework is indispensable to efficient market functioning. We are today in agreement on a framework founded on the principles of equity and accountability of all actors. We have notably reaffirmed the catalytic role of the IMF, the limited nature of the resources of international financial institutions, the necessity for orderly resolution of financial crises, and the search for a permanent dialogue between creditors and debtors. From this time on, we must fully implement these principles.

The adaptation of the IMF instruments to the new configuration of the global economy is today at a critical juncture. I want to stress two points which seem particularly significant to me:

(i) the preventive role of the IMF will be strengthened in making the rules of access to the new Contingent Credit Line (CCL) clearer.

(ii) the incitation role of the IMF will as well be strengthened by reform of its two main facilities : the Stand-By Agreement (SBA) and the Extended Financing Facility (EFF).

Important advances will still be necessary to give greater consistency to the regulation of the international monetary and financial system.

b. Pursuing reform

- New regulations based on the remarkable work of the Financial Stability Forum (FSF) are necessary in order to face up to the risks created by financial globalization.

- **The fight against money laundering must be of primary concern.** The harmful effects of money laundering on the stability of the international financial system and on sustainable development of the global economy, especially of the emerging countries, no longer needs demonstration. From now on, it will be incumbent upon the IMF and the World Bank, as they define their priorities and programs, to take into account the question of money laundering in general and the conclusions of multilateral work on it in particular.

All this work, being achieved or making progress, is encouraging. But we must go to the end of reform, that is to say, to assure better consistency: we cannot, on the one hand, recognize the increasing role played by private capital flows, and on the other,

ignore its consequences on the international financial architecture and on the core missions of the Fund. We already have available numerous elements to rapidly find agreement on a “road map” to open to international capital flows, a concept often characterized on the rubric “orderly financial liberalization”. The goal is to go forward with increasing financial openness in full understanding that it will not bear fruit absent certain preconditions.

This is why I call on the IMF to resume its work on how to put in place the legal and operational means necessary to advise and support developing countries seeking access to international capital markets.

3 -- The fight against poverty should remain a priority

Undeniable results have been achieved in the fight against poverty. But, faced with growing inequalities and with continued overwhelming need, no one can be satisfied with the progress made thus far.

a. One of the core missions of the IMF

The universality of the IMF is one of its founding principles. Its support to all countries, especially the poorest, is necessary for sustainable development. The IMF cannot escape this role and this responsibility.

Let us nonetheless be clear : the IMF must have at its disposal the means necessary to attain this goal. The difficulties which could appear in the next few months on the financing of the Poverty Reduction and Growth Facility (PRGF) give us reason to worry. Faithful to our commitment to support development, which is witnessed by our contribution to the flows of ODA, France is ready to contribute to the financing of the PRGF. This is why we have decided at Horst Köhler’s request –and this despite the increasingly unbalanced burden-sharing between the developed countries in financing support for the poor countries– to lend nearly SDR10 billion additional (1.46 billion Euros) to finance the PRGF. It would be justified for all other developed countries to stand with us, and that the commitments already made, and indispensable to the financing of HIPC, be honored.

All of us here are convinced that the HIPC Initiative must quickly reach its goal : that of enabling a real reduction of poverty in countries which benefit from debt forgiveness. Since our last meeting, we have shown that we want to keep our promises. Ten countries have achieved their decision points for eligibility in the enhanced HIPC initiative, and most of them are benefiting from this decision or soon will, through immediate relief from the majority of their debt service. The largest multilateral lenders and the Paris Club have resolutely committed to this end. I call on all the other creditors to do the same. The IMF and the World Bank have indicated to us that ten other countries could become eligible for the initiative before the end of the year. I deeply hope that this will be the result. But, I also want to repeat clearly that the policies committed to must

be well-adapted for debt relief which benefits the most vulnerable. This implies making strong commitments, notably in the fight against corruption which constitutes the greatest risk of diverting the funds freed up by the initiative from their intended purpose.

b. The fight against AIDS

At least three obstacles impede our action today: the absence of coordination between the actors dedicated to this cause; insufficient financial means; and, sometimes, a lack of local government mobilization.

The French Government calls on the international community to respond:

- As regards financing, the international community, developed countries, development institutions, developing countries, must dedicate \$10 billion over the next few years to consolidating public health systems and the fight against AIDS. These resources must be used effectively and with vigor. For instance, it is essential that developing countries use the margin of maneuver created by debt relief to include in the PRSPs, actions to fight this disease at the national level.

- We must mobilize the concessional and non-concessional resources of the World Bank. Africa is the continent most severely affected by AIDS. IDA has considerable available resources which should normally be assigned to the African countries. A great part of these resources which we have wanted to dedicate to poverty reduction, should serve to contain the spread of a disease which is also the major generator of large scale poverty, especially on the African continent.

- It is equally incumbent on us to take appropriate decisions to ensure that these resources are not wasted. Shouldn't the World Bank be charged to coordinate this effort to complete the financing, in close coordination with UNAIDS and also with the WHO, which has exceptional specialized knowledge in the field? The Bank has the competence, the will, and the political capacity to succeed. It will assure that the actors on the ground use their resources in the most effective and transparent ways.

- Finally, as to the mobilization of governments, which is a central issue, France has proposed that under the auspices of the United Nations, a conference be held on access to treatment, thus completing the efforts at information dissemination and political mobilization already realized or underway.

*
* *
*

Our economies are currently experiencing a period of very encouraging growth, influenced by scientific and technological innovation and thanks to strengthening

economic and financial integration at the global level. This phenomenon carries with it great opportunity, and also, inevitably, important risks, which we must guard against.

International institutions carry out exactly this heavy but inspiring charge to prevent the risks which could accompany a disorderly and unjust globalization. International institutions are not the symbolic illustration of a savage internationalization, as some seem to think. On the contrary, they are the instrument which makes it possible to protect the common interests of the international community and to ensure respect for each member of that community, in disciplining and mastering, at the relevant level, that is to say the global level, forces and movements which so greatly threaten it.

To fulfill this task, these institutions must reach simultaneously the highest level of professionalism, respect for each other's responsibilities, openness to civil society, and transparency. I observe with great satisfaction that we are in good agreement on all these points.

Europe intends to make its contribution to the stability and prosperity of the international economy through active reform, through the preservation of its internal and external balances, and, in assuring the full success of our single market and single currency. A strong Euro is in the interest of the Euro zone and of global economic stability.