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INTERNATIONAL FINANCE CORPORATION  
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Statement by the Hon. **ROD KEMP**,  
Governor of the Fund and the Bank for **AUSTRALIA**,  
at the Joint Annual Discussion



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Mr Chairman

Australia would like to add its congratulations to Mr Köhler on his appointment as Managing Director of the IMF and to Mr Wolfensohn on his reappointment as President of the World Bank Group.

And on behalf of Australia, let me add my thanks to the people of the Czech Republic for hosting this year's annual meetings. Prague, a symbol of the achievements of the transition economies, is a most fitting site for the first annual meetings in the new millenium.

This is an exciting time.

We have the ability to accelerate growth in living standards and reduce poverty around the world. However, the main challenge ahead for the international community is to ensure that all people in both developed and developing countries reap the benefits of the global economy. While openness to the global economy and integration in it is necessary for real human progress, it is not in itself sufficient to guarantee that progress will be secure and stable.

At this point, let me join other delegates in deploring the violence we witnessed yesterday. Violent protesters were not interested in dialogue nor were they interested in any constructive solutions to the relief of poverty. Some comments made outside these meetings would suggest that globalisation is the source of almost every problem currently prevailing in the world. But the wealth of evidence suggests otherwise. Experience of the past 50 years has demonstrated that economies which have increasingly opened themselves up to the world economy have achieved some of the fastest rates of economic growth. And economic growth is the best poverty-busting policy.

But recent financial crises show that participation in the global economy is not without risks. Sustained growth requires sound domestic policies and institutions, better lending and investment assessments and better performance from the international institutions.

And we should not forget the responsibility of the international community. Lowering trade barriers is one of the major contributions that the developed economies can make to help boost the prospects of the poorest economies.

The outlook of continued strong world economic growth is welcome. But there are risks to this outlook. We have witnessed a significant misalignment between the major currencies. We should remember that small currencies can be destabilised and

confidence in them weakened when they get caught in the cross-fire of substantial shifts in the currencies of the majors.

The sharp rise in world oil prices is clearly another significant risk to the world economic outlook. In the light of rising world demand, it is imperative that restrictions on the supply of oil are removed and this is an area where we need a concerted effort by the international community. We welcome the decision by the US to release some of its strategic oil reserves. We also need more intensive study of how greater stability at lower prices can be achieved in oil markets ( not just in the short run but also in the more medium term. The Fund should work on these issues.

The current healthy economic environment in Australia reflects the major reforms which have brought our economic and financial policies and institutions up to world's best practice. Most recently, we have completely overhauled our tax system to ensure that it is internationally competitive and able to meet the demands of the twenty first century.

As reform has made the Australian economy more competitive, work practices have improved and businesses have sought ways to raise productivity, including through profitable applications of the new information and communications technologies. This sound mix of macroeconomic policies and an ongoing microeconomic reform agenda has created a more flexible and resilient economy. The benefits of these reforms are evident in Australia's record of sustained strong economic growth – 13 consecutive quarters of through the year growth at or above 4 per cent – and low inflation outcomes.

Australia has embraced key elements of the so-called “new economy”. We have one of the highest percentages of the total population with internet access. Businesses are also looking to embrace new information and communication technologies. The key attributes of a new economy cannot be assessed simply in terms of the production of information and communications technology, but rather the ability to apply developments in new technology so as to increase productivity and an economy's overall output. In this regard Australia has correctly been identified as one of the fast-growth new economies of the 1990s.

#### The Fund's Agenda

Another crisis similar to the Asian financial crisis is always possible. It is up to us to ensure that the likelihood of further crises is minimised and that, should a crisis occur, its severity is limited.

We welcome the expeditious completion of the review of Fund facilities, with the package of reforms recently agreed by the Executive Board.

With that agreement in place, the Fund should now refocus its energies on those features which ultimately lead to successful programs. Namely, program design, ownership and conditionality.

Australia also acknowledges the progress made to date in developing a framework for private sector involvement in crisis prevention and resolution. We urge the Fund to continue its work in this area, particularly in the area of tools for involving the private sector.

We welcome efforts to continually strengthen Fund surveillance, including in assessing financial vulnerabilities. We believe that Fund surveillance should continue to focus on core macroeconomic and financial issues.

We have strongly supported the development of standards and codes and efforts to improve transparency. But the Fund must balance its role as confidential adviser with the push for enhanced transparency. As part of ongoing efforts to enhance the transparency of the Fund's operations, Australia is pleased to see that the Independent Evaluation Office will be a reality in the near future.

Representation at the Fund needs to more closely reflect members' relative economic standing, although we would not like to see the representation of smaller, developing countries reduced. We support a simplification of the current quota formula system, which lacks both logic and transparency, and look forward to this issue being progressed.

#### The World Bank

The Bank has been reviewing and reassessing its agenda in the light of changing circumstances. It has made great progress in this regard over the past five years but there continue to be many new challenges and we encourage it to press ahead. The Bank should emphasise a strategic approach in the development of its comparative advantage relative to other lending institutions.

I particularly mention the principles of the Comprehensive Development Framework and their application through Poverty Reduction Strategy Papers, which provide a sound basis for the Bank's country work. The challenge is to ensure that the demands made on borrowing countries are not excessive and are within countries' often limited capacity.

#### Joint Fund-Bank Issues

To date, 10 countries have reached their 'decision points' under the enhanced HIPC Initiative. Efforts are being redoubled to get a further 10 countries to this point by the end of the year.

While this is welcome progress, it is no cause for complacency. The successful implementation of the enhanced Initiative will require sustained effort over a number of years. We urge the World Bank and IMF to maintain their current efforts and continue to collaborate closely. For their part, potential HIPC beneficiaries must address factors preventing early delivery of relief including, in some cases, destabilising conflicts. If not

supported by stable and well-functioning policies and institutions, the proceeds of relief will be quickly squandered.

Debt relief must of course be funded. We encourage all who have pledged contributions to the Trust Funds administered by the World Bank and IMF to honour them as soon as possible. We also underline the importance of full participation of all creditors in the Initiative, and encourage the Bank and the Fund to persist in their efforts to bring this about.

Debt relief provides one example of the importance of close co-operation between the IMF and World Bank. We welcome strongly the joint statement issued by President Wolfensohn and Managing Director Köhler clarifying the respective roles of the Bank and the Fund and outlining their vision for an "enhanced partnership" going forward. As they point out, the two institutions share the same broad objective. The challenge now will be to translate the spirit of the joint statement into better collaboration at the working level. While HIPC is a good example of early progress, we will be looking for further gains elsewhere, including the design and co-ordination of conditionality and co-operation in crisis situations.

#### Conclusion

Mr Chairman, Australians are by their nature optimistic people. We are also realists. We know that continued strong growth of the Australian economy requires the maintenance of sound economic policies. We also recognise the responsibility of the international community, including the important role of the IMF and World Bank, to ensure that the full benefits of globalisation are shared by all nations.