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Statement by the Hon. **ATEF MOHAMED MOHAMED EBEID**,
Governor of the Bank for the **ARAB REPUBLIC OF EGYPT**,
on behalf of the Arab Governors
at the Joint Annual Discussion

Statement of Dr. Atef Ebeid
Egyptian Minister of Privatization

Delivered on behalf of the Arab Governors
at the Annual Meetings of the World Bank and IMF
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Mr. Chairman, I am pleased and honored to address this gathering on behalf of the Governors of the Arab member states of the World Bank and IMF. I would like to begin my remarks by congratulating you on your election to chair the Board of Governors this year, and by thanking the government and citizens of the People's Republic of China for their kind hospitality and successful organization of this year's meetings.

Mr. Chairman, during the past year we have witnessed a number of important developments in the global economic environment, including the continued pursuit, in a large number of countries, of policies aimed at achieving fiscal and monetary stability. These policies have led to reduced budget deficits and lower rates of inflation and world interest rates, and have helped to create a favorable economic climate in most countries of the world. Many countries have continued their structural reform efforts, which have helped to improve prospects for continued economic growth. But these developments were not accompanied by increased growth rates or by a reduction in the high rates of unemployment prevalent in many European industrial countries, although there are encouraging signs of increased economic activity in a number of them. While the lower economic growth and higher unemployment in these countries reflect in part a reduction in their budget deficits, we believe that additional efforts must be made to eliminate labor market distortions and reduce unemployment by increasing the flexibility of wages and improving the social safety net.

On the other hand, economic growth in 1997 remained strong and without inflationary pressures in the U.S. and the U.K., two countries distinguished by their flexible labor markets and balanced economic policies.

A number of countries in transition have implemented economic reform policies over the past few years that have significantly increased economic activity after a period of stagnation. In the developing countries, where reform efforts have been redoubled, growth rates remain high. We are highly appreciative of the efforts being made in developing countries, and of the outstanding role played by the World Bank and the IMF in supporting the implementation of sound economic policies in their member states.

On this occasion, and in order to support efforts to promote growth in developing countries, we call on the industrial countries to eliminate the obstacles that still constrain the exports of developing countries. We also hope that the reserve currency countries will intensify their

efforts to reduce fluctuations in the exchange rates of their currencies, as such fluctuations have a negative effect on the economies of developing countries, especially those tied to the exchange rates of the principle currencies.

Mr. Chairman, the global economy is currently undergoing great changes. The globalization of financial markets and the elimination of constraints to international trade have led to a new challenge—not only for the Bretton Woods institutions—but also for the policy makers of their member countries. Although the new economic environment has led to the creation of investment opportunities and worldwide growth, it has also resulted in new challenges for the member countries and the international financial organizations, including the increased size and sophistication of world financial markets, advances in information technology, and increases in the size of capital flows and the ease of transfers between various financial markets. The Bretton Woods institutions have a particularly important role to play in helping their member countries, especially the developing countries, to take full advantage of this new climate, while reducing the associated risks. Recent developments have caused the IMF to consider amending its Articles of Agreement to allow it to supervise efforts aimed at liberalizing worldwide capital movement, to ensure that it is done in an organized and effective manner. The recent problems of financial markets in many emerging markets are largely the result of the increased globalization of these markets. In order to obtain the maximum benefit from globalization and to minimize its negative effects, many developing countries have implemented a series of sound economic reforms, accompanied by comprehensive structural reforms. But these measures alone are not sufficient, as recent developments in Southeast Asia have shown. Even countries that follow sound economic policies are not safe from the effects of financial disturbances in the region.

Mr. Chairman, recent global developments have underscored the need, when preparing economic reform programs, to consider the existence of favorable conditions in the countries concerned, which will allow them to meet the challenges of integration into the global financial markets.

It is also crucial to ensure that the financial and banking sectors are sound, and to strengthen financial markets in the developing countries, thus enabling them to keep pace with the latest economic developments. Here I would like to stress the importance of the technical assistance provided to developing countries by the IMF and the World Bank, to support their efforts aimed at integrating themselves into the new world order. There is no doubt that globalization has added to the burden of responsibilities carried by the World Bank and the IMF, and we consider the rapid response of the two organizations to the crisis in Southeast Asia to be clear proof of their effective role in limiting the effects of financial crises.

Mr. Chairman, we endorse the importance attached by the Bank and the Fund to the role of sound management in economic development, but the focus must be on strengthening the economic aspects of sound management, as these lie naturally within their scope of activity. We also stress the importance of respecting the sovereignty of the member states and their freedom to choose the type and timing of the programs they implement.

We also welcome the increased importance attached by the Bank and the IMF to the social dimension of economic reform programs in developing countries, especially in two areas: first, providing the needed resources to the health and education sectors within the framework of economic reform programs, as it is very difficult to achieve sustained high rates of growth without developing human resources. Second, establishing effective mechanisms to provide a social safety net as an integral part of reform programs, as such mechanisms reduce the negative effects on limited-income groups during the early stages of reform, while helping to promote public acceptance of the reform process itself.

We support the international initiative aimed at reducing the burden of heavily indebted poor countries, but we would like to express our concern over the unavailability of sufficient resources for this purpose. If sufficient bilateral assistance cannot be obtained to complete the implementation of this initiative, we support the Fund's selling a portion of its gold reserves for this purpose.

Mr. Chairman, I would now like to turn to the subject of relations with the World Bank.

We appreciate the circumstances that over the past two years have led the Bank to make a number of administrative changes and to focus its efforts on improving project implementation, but we also note a reduction in the number of new commitments for FY 1997, and for the preceding year as well. It is disturbing that the decreased availability of new loans has hit particularly hard the regions that suffer from severe poverty, such as Sub-Saharan Africa and South Asia, where World Bank and IDA commitments fell significantly last year. It is also disturbing that the reduction in new commitments to the Arab World—over 40 percent—was larger than in any other region. We must therefore make exceptional efforts to increase the Bank's activities in these regions, to ensure its effective role in reducing poverty and supporting development efforts.

We look forward to implementing the reorganization program initiated by Mr. Wolfensohn within the framework of the Strategic Compact recently approved by the Bank's board of directors, which contains a number of basic reforms aimed at improving performance and enhancing the Bank's ability to serve its member countries more effectively and at lower cost.

I would also like to draw your attention to the positive accomplishments achieved by the World Bank Group over the past year. Foremost among them are the continued increase in drawings on IBRD and IDA credit facilities and the expanded activities of the IFC, along with its increased concern for the developmental effects of its investments and greater interest in investing in the small countries of Africa. We also welcome the increased number of guarantees provided by MIGA, and we support efforts to enhance its ability to provide even more of these guarantees, which encourage the flow of private capital. And we applaud the efforts made by Syria to normalize its financial relations with the World Bank and regain its right to avail itself of the Bank's services.

Mr. Chairman, I would now like to discuss economic developments in the Arab World. The countries of this region witnessed a number of positive developments during 1996 and 1997, including significant improvements in most of the macroeconomic indicators, the renewed stability of economic conditions, and increased rates of growth. GDP grew by 4.5 percent in 1996 and is expected to achieve similar growth in 1997. This growth was also accompanied by an increase in real wages for the first time after four successive years of decline.

These positive developments also included an improvement in the general financial situation of both the oil and nonoil countries. Budget deficits in the region were reduced to about 2 percent of GDP in 1997, compared to 7 percent in the early 1990s. Inflation rates in the region fell to 8 percent in 1997, just half of the rate during the previous five years. The Arab countries also witnessed positive developments in their external performance, with the current account register showing a surplus for the first time since 1990. The external debt burden was also reduced in a number of countries.

Mr. Chairman, the improvement in the region's economic performance is largely the result of the comprehensive financial and structural reforms implemented by a number of Arab countries, with the support and assistance of the World Bank and the IMF. The countries that adopted financial stability programs have begun to reap the benefits of reform. The Gulf countries have witnessed a significant improvement in their economic situation after several years of pursuing policies of financial reform.

Great efforts have also been made to revive the Palestinian economy and to build financial and economic institutions in Palestine, with the support of the World Bank, the IMF, and the donor countries. We applaud these valuable international efforts to assist the Palestine Authority in overcoming the difficult economic situation and poor standard of living in the Palestinian territories, but we regret that these efforts are faced with increasing obstacles caused by Israeli measures, which have stymied the efforts of the Palestinian people to develop their homeland and hindered the financial assistance provided by Arab and international donors, in addition to obstructing the pathway to peace in the Middle East. We therefore urge the World Bank Group, the IMF, all international organizations, and their member states to demand that the Israeli government release all financial assets belonging to the Palestine Authority, open the closed borders, and refrain from placing further obstacles to the development of the Palestinian economy.

Mr. Chairman, completion of structural reform aimed at increased economic liberalization is at the top of the agenda of the Arab countries. This is evident in the effective measures being taken by the countries of the region to implement privatization programs. It is also evident in the success that many of these countries have achieved in strengthening their banking and financial systems and freeing them from administrative constraints, in an attempt to stimulate financial mediation and improve the investment climate for the domestic and foreign private sectors. Also worthy of note are current structural reforms aimed at increasing production capacity and diversifying economic activity by providing new opportunities for the private sector. We hope that these important reforms will help solve the unemployment problem by

creating new job opportunities that are sufficient to absorb the regions' steadily increasing labor market.

In view of the benefits of globalization and the need to increase their competitiveness, the Arab countries have taken measures to create a regional free trade zone, and members of the World Trade Organization have taken important steps to liberalize trade and open their markets to the outside world.

Mr. Chairman, the marked improvement in the economic conditions of the Arab countries has led to increased capital flows in a number of them. We are hopeful that these countries will be able to attract further capital and increase their rates of investment. In this connection, an important step was taken in 1996 by the Arab development funds to encourage increased participation by the Arab private sector in reform and development activities, through new programs offered by the funds to provide financing for private sector projects.

The Arab states are well aware that, despite the improved economic performance of the region, they still have a long road to travel. The achievements of the past two years will serve as the cornerstone for future reforms. The Arab countries are also aware that improvements in the external environment are not sufficient to stimulate economic growth. Efforts must also be made to create domestic conditions that can help achieve sustainable high growth rates. Both elements are needed to create a climate that encourages domestic savings and productive investment, which in turn can help achieve high growth rates, provide increasing employment opportunities, and raise the standard of living of the region's population.

Mr. Chairman, before leaving our discussion of the Arab World, we must not forget that Libya continues to suffer from the sanctions and other constraints that have been placed upon it, and that other Arab countries are threatened with similar sanctions. It is our hope that these resolutions can be reconsidered in an objective light, in order to relieve the suffering of the people involved. We call for efforts to assist in the development of these countries by means that comply with the rules of international trade, to increase the flow of capital to these countries in accordance with the principles of the international financial institutions.

We urge the IMF and the World Bank to continue and intensify their efforts to provide financial support and technical assistance to Arab countries and their specialized agencies, thus enabling them to keep pace with the international economic system, in particular by providing the technical training necessary for modern economic management.

We welcome the approval by IMF members of the new SDR issue, and we urge the member countries to complete in a timely manner the procedures for amending the Fund's Articles of Agreement in this respect.

With regard to the eleventh review of the quotas of IMF members, we feel that we must express our reservations concerning the approved method of distribution, which will lead to

an overall reduction in the quotas of developing countries, just as these countries are assuming a greater role in the world economy.

Mr. President, we share the view expressed in your opening statement that the most important challenge facing the World Bank Group, the IMF, and all their member countries is the challenge of adapting to the new circumstances of a changing world. We welcome the efforts that have been made so far in this direction, and we look forward to further participation in helping our member states meet this challenge.