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INTERNATIONAL FINANCE CORPORATION

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Statement by the Hon. **PETER COSTELLO, M.P.**,
Governor of the Bank and the Fund for **AUSTRALIA**,
at the Joint Annual Discussion

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I thank the people and Government of the Hong Kong Special Administrative Region for their warm and generous hospitality in hosting these meetings. This has been an historic year for Hong Kong. I am especially pleased that this year's Annual Meetings are being held here, at the heart of the most dynamic region in the world economy.

Asian economic growth

It is now widely recognised that the dynamism of the region over the past decade has been based on sound fundamentals:

- high savings financing high investment in people and infrastructure;
- a focus on exports and world trade;
- good fiscal and macroeconomic settings.

A key factor in the recent turbulence in financial markets in the region has been concern over macroeconomic settings. Provided the fundamentals are restored

and maintained, there is a sound basis for strong growth continuing well into the future.

Nevertheless, the recent experience underlines the point that good policy requires continuing effort. Good policy never takes a holiday. Sound financial systems are particularly important. Financial supervision must be flexible so it can respond to new challenges. And as economies open to global financial markets in order to draw upon international capital flows, appropriate policy and prudential frameworks become more important, requiring more sophistication, more transparency and more disclosure. This lesson is as relevant to developed countries as to the emerging market economies.

And when problems do emerge, we must be ready to respond.

Australia was pleased to participate in the support arrangements recently put in place for Thailand. Our contribution to that package reflects our commitment to the region and the importance we attach to regional stability and growth. I would like to take this opportunity to thank the Fund for the key role that it played in assisting Thailand. We are confident that the IMF program, fully implemented, will restore confidence and economic stability and re-establish a firm foundation for strong medium-term growth. We look to the Thai authorities to progress its implementation.

The Fund and the multilateral development banks have an indispensable role to play in facilitating adjustments in member economies facing severe structural problems. This was evident in Latin America in the late 1970s and early 1980s, and more recently in Mexico and now Thailand.

The Fund could be assisted in this task by arrangements for enhanced regional consultation and co-operation between Finance Ministries and Central Banks. This could promote the early identification of problems and reinforce the willingness of countries to take necessary corrective actions at an early stage; it could also facilitate the speedy arrangement of financial support, as occurred in the case of Thailand. We consider furthering cooperation would be of assistance in the region.

Economic policy in Australia

Many speakers at these meetings have spoken about the importance of sound macro- economic policies and structural reforms for sustained growth and improving living standards. I am pleased to say, Mr Chairman, that Australian economic policy is directed firmly at these objectives. Over the last eighteen months, our Government has introduced far reaching economic reforms which will reinforce Australia's strong and sustainable growth.

Monetary policy is now based on a compact with the Central Bank in which we have agreed a target range for underlying inflation of 2 - 3 per cent over the course of the cycle. Through the year to the June quarter 1997, underlying inflation was only 1.7 per cent, while for the 1997-98 financial year we expect it to remain at the bottom of the target range.

We are undertaking rapid fiscal consolidation and will have a budget surplus next year. That will be achieved without the proceeds from the privatisation of government business enterprises, which will go to retire debt. Under current plans, Commonwealth general government debt will fall from just under 20 per cent of GDP in 1995-96 to close to 10 per cent of GDP around the turn of the century.

We have been no less active in structural reforms. All aspects of regulation, at all levels of government, are being reviewed to ensure that they do not hinder competition and market mechanisms. I have announced a complete overhaul of the Australian financial system, including the establishment of a single prudential regulatory authority for all financial institutions. This recognises the increasing integration of financial markets as the services and products of different institutions increasingly overlap and merge. I am also undertaking a major review of all aspects of corporate law to reduce unnecessary regulation and improve the economic focus of our corporate regulation. Australia is now at the leading edge of reform in these areas.

Mr. Camdessus, I applaud your call to the European countries to deal with unemployment through reform of their labour markets. Such reform is also essential in my country and is being pursued. Structural reform to the rigidities in the labour market is the answer to high structural unemployment.

There is no doubt that economic reform is difficult. The temptation to delay undertaking necessary changes that impose short term costs is understandable. But such responses can make the ultimate reform task larger and more difficult and thereby impose significant long term costs on the community.

Fund and Bank Activities

Over the past twelve months we have seen considerable progress on several major initiatives involving the Fund and the Bank. The HIPC Initiative has been implemented and is now operational. Agreement has been reached on the Eleventh General Review of Quotas and on a special allocation of SDRs. And the Development Committee agreed on Monday to an increase in the capital of MIGA. These are substantial achievements. The World Bank has also progressed its broad reform agenda.

New Arrangements to Borrow

A particular achievement since last year's meeting is the agreement on the New Arrangements to Borrow for the Fund. Australia is pleased to have played an active role in the negotiation of this new facility. I delivered Australia's adherence to the Managing Director when we met last Saturday and was pleased to chair the informal gathering of the group yesterday. I urge those countries which have not yet completed their processes for adherence to do so quickly, so that the NAB may come into operation at an early date. It will enhance the Fund's access to resources in a crisis and so enable it to play a full role in handling such situations.

World Bank Reform

I welcome the progress which the Bank has made on its reform agenda. Six months ago the Executive Board endorsed the Strategic Compact. Australia has been a strong advocate of reform in the Bank to improve its efficiency and effectiveness. Implementation of the Strategic Compact is an important step in this direction.

An organisation responsible for promoting reform must lead by example in its own internal management. I congratulate the President for the great progress he

has made on this front. He will have our support in doing what is necessary to ensure that this key area of the Compact remains firmly on track.

More generally, the various measures identified in last year's report by the Multilateral Development Bank Task Force need to be pursued actively, including coordinated efforts between the five banks to develop consistent evaluation standards. The World Bank has much to contribute to this process, but there is also much that it can learn from the experience of the other institutions. I look forward to the progress report from the five banks at the next Development Committee meeting.

Mr. Chairman, we in Australia are very strong supporters of the Fund and Bank. We are pleased with the leadership shown by Michel Camdessus and Jim Wolfensohn. We wish both institutions another successful year.