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Statement by the Hon. **DATO'SERI ANWAR BIN IBRAHIM**,  
Governor of the Bank for **MALAYSIA**,  
at the Joint Annual Discussion

**STATEMENT BY ANWAR IBRAHIM  
DEPUTY PRIME MINISTER/  
MINISTER OF FINANCE, MALAYSIA  
AT THE 1997 WORLD BANK/IMF ANNUAL MEETING  
HONG KONG 24 SEPT 1997**

1. Allow me to begin by commending the World Bank and the IMF for having successfully initiated pro-market growth policies which have altered the global economic scene. This has resulted in not only raising the prosperity of member countries but also alleviating poverty, particularly in the poorer nations.

2. The Southeast Asian region has experienced a decade of high growth which has enabled countries to undertake several economic and financial reforms together with greater liberalisation. The region's long-term economic prospects remain strong. However, the recent depreciation of the region's currencies illustrates that sound policies are no guarantee against speculative activities. In the light of recent developments, there is a need to focus attention on the problems that should be addressed, especially when these problems are faced by countries with less sophisticated financial systems.

3. Malaysia has always been committed to a market-driven economy and has pursued a consistent program to reduce the role of Government and promote private sector initiative in the growth process. Our commitment to a market-based financial sector started with the flotation of the Ringgit as early as 1973, followed by liberalisation of the financial system. In an open environment, to be sure, volatility will be experienced from time to time.

4. Though the openness has led to problems, it is not necessarily true however that financial crises in any one country would lead to systemic ramifications elsewhere in the region. Nevertheless, the contagion effects of the crisis in Thailand, for example, have reached an intensity beyond our expectations, to no small extent aggravated by the workings of unscrupulous speculators. All this has led to a cumulative psychological effect of viewing the

entire region in turmoil. It is therefore necessary to put things in the proper perspective and not view recent and current developments outside of their proper context. We have indeed the political resolve to put the appropriate macro-economic policies in place. Nevertheless, we should not be befuddled by statistical abstractions into prescribing macro-economic policies divorced from social realities.

5. In the light of recent developments, the Fund has an important role to play to assist countries in curbing the tendency for markets to over-react to any perceived contagion effects. An important first step was the launch of the Fund's Special Data Dissemination Standards (SDDS). Unfortunately, the provision of timely and comprehensive data has not been sufficient. Market players have a tendency to over-react to isolated events and sometimes exaggerate them.

6. Another significant step is the recent emphasis by the IMF Managing Director on the importance of peer pressure to ensure that countries adopt appropriate policies. In the ASEAN region, we have finalised a framework to facilitate effective consultations and discussions. In this regard, I would like to propose two initiatives to promote greater cooperation in order to facilitate further liberalisation and integration of financial markets while avoiding any destabilising consequences.

- Firstly, work on the SDDS must be expanded to enhance transparency of the activities of all market players. For example, the Fund could promote international coordination in the supervision of financial markets through the establishment of a global trade information system for foreign exchange markets to allow authorities to monitor trading activities in the global market-place; and
- Secondly, the Fund could devise a framework to enable countries to adapt and cope more effectively with market excesses associated with destabilising capital flows. It is not sufficient that only member countries abide by Fund advice and observe "international rules". Similar rules should also be designed to encourage capital

market participants to contribute towards the efficient functioning of the market mechanism. This framework could include rules and principles on ethical and professional standards, stronger disclosure requirements, and regular contacts between the managers of leveraged funds and banking supervisors. This framework should be facilitated by agreement on the provision of information on leveraged fund activities and arrangements for the home country supervisors to share information with the host country supervisors on the activities of these funds.

7. The recent financial turbulence in the region is not without its positive developments. We have witnessed the mobilisation of regional financial support for Thailand. The IMF played a catalytic role in this exercise with several bilateral contributions from Asian countries. The expeditious response of the IMF and the Asian countries in providing a US\$17.2 billion facility is a unique demonstration of regional solidarity. The financial turbulence has provided the impetus for the formation of a forum to discuss common regional issues, as well as explore remedial policy action. This forum now provides a basis for the establishment of a facility to enhance efforts towards economic and financial stability to support macroeconomic adjustment.

8. We are committed to the liberalisation process because we have seen and we have enjoyed the results, but multilateral institutions such as the IMF must be prepared to view the predicament of emerging economies in their efforts to deal with the volatility of their markets caused by unscrupulous speculators. Therefore the speed and space of liberalisation should be contingent upon the mechanisms being put in place. In this regard, the IMF should initiate a study and introduce measures to ensure market stability.

9. While asking the IMF to assume a larger role to ensure monetary stability, I have not forgotten the very critical role of the World Bank in helping to raise living standards and alleviate the plight of poor nations. The benefits of strong economic growth continues to be denied to the poorest nations largely because of their large and unsustainable debts. We are concerned that progress on the implementation of the HIPC-ESAF Initiative to help poorer

members exit from the debt trap has been slow. We support the call for greater flexibility in implementing this Initiative so that more countries will benefit. To achieve this, it is essential that we all make firm financial commitments. Malaysia is prepared to commit our SCA-2 (Special Contingency Account) balances as well as bilateral contributions, based on an equitable burden sharing formula.

10. On combatting corruption and improving governance, we attach great significance to this exercise as unchecked they could undermine macroeconomic stability and sustainable development. In this regard, we support the relevant strategies and guidelines recently issued by the Bank and the Fund. However, the final responsibility rests with the member countries to strengthen their own policies and institutions. It is also crucial that those guidelines should not be prescribed on the assumption that corruption and financial mismanagement occur only in developing countries.

11. We recognise the importance of the private sector in the process of development and welcome the recent agreement to increase the capital of MIGA (Multilateral Investment Guarantee Agencies).

12. It is disturbing to note that Official Development Assistance to developing countries continues to decline despite evidence of rising poverty in many countries. Of particular concern is that scarce financial resources which could be used to finance long-term development in poor countries are instead being utilised to fund peace-keeping and emergency activities. I therefore urge donor countries to renew their commitment to ODA through a smart partnership between donors and recipients. While donors provide the necessary financing, the recipients must reciprocate by demonstrating maturity and responsibility in utilising these funds.

13. While the poor and disadvantaged must not be forgotten, the recent currency developments in this region have also driven home the need for us to re-dedicate ourselves to the cause of closer international monetary cooperation. It is essential that the World Bank

and the IMF act in the true spirit of global partnership to ensure that the future shape of the world economy and its financial system will be such that they promote growth and an equitable sharing of the fruits of development with stability.