Conclusion

As we look ahead, we anticipate continuing to address issues of central importance to the Bank and Fund, and the broader development community. We believe the Committee now has a strengthened structure and format that encourage ministerial consideration of, and guidance on, important issues. There is a growing interest by members in the Committee's work. We seek to further strengthen the Committee and its effectiveness in the future by building on the experience gained from each meeting.

Statement by the Governor of the Bank for the Republic of Armenia

Hrant A. Bagratian

Since independence, the Republic of Armenia has been at the forefront of reforms among the republics of the former Soviet Union. In 1991, Armenia was the first republic to privatize land. This was followed by liberalization of the prices of most goods and services, and privatization of small enterprises. However, these early successes could not be consolidated until the spring of 1994, owing to the siege conditions imposed by war and blockade. The cease-fire agreement over the Nagorno Karabagh conflict gave us the opportunity to reenergize the reform program. Since then, negotiations over a long-lasting peace have progressed steadily. Let me reiterate here Armenia's commitment to a peaceful settlement of the conflict over Nagorno Karabagh. Progress in negotiations has been complemented by other positive political developments in the Caucasus region, which speaks well for Armenia's future economic growth. For instance, there are good prospects that key trading routes will reopen in the near future and that greater stability in Georgia will continue to ease Armenia's isolation. In addition to the improved external environment, the acceleration of economic reforms was supported by political continuity. Since independence, the country led by President Ter-Petrossian has pursued a policy of building and strengthening national institutions. In July 1995, the first post-Soviet constitution was approved by plebiscite, and parliamentary elections were held. On September 22, 1996, President Ter-Petrossian was reelected for another five-year term.

The Main Achievements

The government's economic reform program has been highly successful on both the stabilization and structural reform fronts. Inflation has fallen sharply, and after three years of steep decline, growth of 5.4 percent was recorded in 1994 and 6.9 percent in 1995. GDP growth for 1996 is expected to be around 5 percent. Prices have been liberalized, energy subsidies reduced, and payment discipline in the energy sector increased. Clearing trade has been abolished and foreign exchange surrender requirements eliminated. Over 3,450 small-scale enterprises and about 900 medium and large enterprises have been privatized. And key pieces of economic legislation, such as the 1995 Real Property Code, have been approved.

Armenia has made impressive strides in the area of macroeconomic stabilization. After the introduction of a national currency, the government began to tighten financial policies in early 1994. Public expenditures were limited to priority items, and revenue collection was increased. Central bank financing of the fiscal deficit was curtailed. Interest rates on central bank refinancing of commercial bank credit were allowed to become highly positive in real terms to further restrain monetary growth. In December 1994, fiscal and monetary restraints were reinforced by an elevenfold increase in the price of bread and the consequent elimination of a substantial part of the bread subsidy, which was estimated to equal 12 percent of GDP in 1994.

As a result of these measures, the fiscal deficit declined from 48 percent of GDP in 1993 to 16.4 percent of GDP in 1994, and to 8.7 percent in 1995. Inflation has fallen sharply. In 1995, inflation averaged 2 percent a month, as compared with 46 percent a month in the first quarter of 1994. Inflation has averaged around 1 percent a month in 1996. This has been accompanied by broad stability in the nominal exchange rate. There are also signs that external adjustment is beginning: the current account deficit, excluding official transfers, declined to 26.4 percent of GDP in 1995, from 35.5 percent in 1994. This has been accompanied by an accumulation of foreign exchange reserves equivalent to nearly one-and-a-half months of imports.

The Government Program and Remaining Challenges

The primary objective of the next phase of structural reforms is to continue reorienting the state away from direct management of the economy. The emphasis of government policy will be on creating the conditions for the private sector to be the engine of growth in Armenia, while providing adequate social services and protection for the most vulnerable groups in society.

Trade and Clearing

The government is aware that, given the size of the domestic market, increased exports will be key to sustaining the economic growth needed to improve living standards. It is therefore strongly committed to maintaining a free trade regime. All restrictions on exports have been removed, and protection for domestic producers greatly reduced. At present, the import tariff has only two rates, zero and 10 percent. Furthermore, the government is committed to early accession to the World Trade Organization, and will aim to participate in the most important agreements. No new nontariff import or export restrictions will be introduced. Clearing trade arrangements have been discontinued, and the government is no longer involved in gas-related barter. Gas importers are allowed to operate only on a commercial basis. Export trends are encouraging. Estimates for 1995 suggest export growth of 22 percent over 1994 levels; at the same time, export data show successful diversification into nontraditional markets.

Energy Sector Policy

The reform of energy sector policy and institutions has a key role to play in reshaping the Armenian economy. The government has therefore initiated a fundamental reform of the sector. During 1996, electricity tariffs will be raised in stages until full cost recovery is reached. Collections targets of at least 75 percent of supply have been established for end-1996 to reduce the very high level of nonpayment.

Privatization

Privatization is seen by the government as essential to accelerating enterprise adjustment, to improving corporate governance, and to reducing the pressure for subsidies. While the privatization targets for 1995 were not fully achieved, the pace of privatization increased throughout the year. The government is committed to continued acceleration without losing the competitive and transparent structures and techniques that have been developed to date. The Privatization Program for 1996 has been built on the 1995 experience. The 1996 program includes over 650 medium- to large-scale enterprises and the approximately 2,000 remaining small enterprises.

Financial Sector

An effective financial intermediation system is key to the mobilization of resources and the development of the private sector. However, at present, the Armenian financial system is unable to play this role. Many Armenian banks are in a serious financial condition and are committed to taking actions to correct this situation. With the assistance of the World Bank and the IMF, a rehabilitation strategy has been designed to produce a healthier banking system. This strategy seeks to differentiate between viable and nonviable banks, and to ensure that the former are given all available assistance in building themselves into strong organizations and that the latter are either restructured or closed in an efficient manner.

Social Safety Net

The government's social safety net strategy involves moving progressively from generalized subsidies to targeted benefits, with a medium-term goal of relying primarily on income-tested poverty benefits to protect vulnerable groups in society. To achieve that goal, the government is improving targeting by category in the short term while developing the information base for incomes testing. To consolidate the gains achieved from the flattening of the state pension structure in the 1995 Pension Law, the government is preparing legislation to regulate private pension schemes in order to facilitate their emergence to supplement the state system. The government has also prepared a draft Employment Law, which will regulate unemployment problems, including unemployment registration, unemployment benefits, and job provision.

Economic Prospects and External Financing Needs

The program of measures I just described should help lay the basis for a sustained economic recovery. As the reform program deepens, output should continue to grow to around 6 percent a year. Growth is expected to be led by export demand both in former Soviet Union markets as those economies recover, and by increasing penetration of nontraditional markets, such as the Middle East and Europe. The expansion and diversification of exports would be stimulated by improvements in the incentives framework induced by the reform program. Infrastructure investments designed to overcome Armenia's poor transportation and communications connections with neighboring countries will be key to facilitating growth in external trade.

Export growth is expected to come primarily from light industry and agroprocessing, which currently represent around 55 percent of export revenues. The importance of heavy industry, which fell from 46 percent of GDP in 1990 to 39 percent in 1995, is likely to continue to diminish due to the increased real price of energy and other inputs. The satisfaction of the previously repressed demand for services in the domestic market is also likely to make a major contribution to growth. Value added in the services sector grew by over 70 percent in 1994 and by nearly 40 percent in 1995. Further growth of 10 to 15 percent a year is projected for the sector over the medium term. Investment in new capacity will play an increasing role in generating growth as the potential for expanding capacity utilization is gradually exhausted. Armenia's investment rate would need to rise from its present level of 9.4 percent to around 13 to 14 percent by the year 2000, in order to sustain the projected growth path. This would occur as private sector confidence, both domestic and foreign, responds to the improved investment climate, and as the financial sector plays a more effective role in channeling savings into investment.

Sustained economic recovery is contingent on the availability of sufficient external financing. Since the country's investment and spending needs cannot be wholly financed out of domestic resources, substantial additional flows must be mobilized from foreign sources. Without such external support, there is a risk that the reforms could entail an unsustainable level of poverty for the population.

In the near term, significant balance of payments assistance will continue to be needed. However, external capital inflows are also critically needed to underpin the reforms in the energy sector, investments in transport infrastructure, and the reforms in health and education. To this effect, the substantial humanitarian aid Armenia has been receiving on a grant basis is expected to be progressively replaced by development lending. This would help consolidate the investments in infrastructure and human capital that are needed to support economic growth over the medium term, and to deliver a sustained increase in the living standards of the Armenian population.

Statement by the Governor of the Fund and the Bank for Australia

Peter Costello

I take the opportunity of this annual meeting to warmly thank Jim Wolfensohn and Michel Camdessus for the leadership that they have brought to their respective positions over the past year. We assure them of our continuing support—Michel as he commences an unprecedented third term as Managing Director of the Fund. I join with others in welcoming Bosnia and Herzegovina to the Fund and the Bank.

There has been important progress on a number of fronts in the past 12 months:

- We are close to finalizing new arrangements for the IMF to borrow from its members. This will greatly enhance the Fund's financial position in handling large demands in emergencies.
- The Fund's approach to surveillance has been greatly strengthened, including through the data initiative.
- Under difficult circumstances, funding for the International Development Association (IDA) for the next few years has been settled.
- A historic agreement has been reached on a framework for debt relief for the heavily indebted poor countries, with the World Bank and the Fund playing a central role.

- And the process of reforming the World Bank has been given new momentum. These developments show a vitality in the IMF and the World Bank, and demonstrate their effectiveness in facilitating international cooperation and achievement.

Partnership for Sustainable Global Growth

The Declaration of the Interim Committee is described by the Managing Director as the 11 commandments. He emphasized four principles: fiscal consolidation, structural reform, responsible management of public affairs, and ensuring strong financial systems. He stressed the need to achieve budget balance and strengthened fiscal discipline in a multiyear framework. None of this is easy. But it is important for us to accept the challenge. In Australia we have.

We have announced and are now implementing a fiscal strategy with a multiyear framework, which will balance our budget in 1998–99. We are implementing structural policies and labor market reform that are complementary and mutually reinforcing. As the declaration observes, together these policies will establish conditions for growth, employment, and rising living standards.

New Arrangements to Borrow (NAB)

I am particularly pleased that Australia has been able to play a constructive role in the design of the New Arrangements to Borrow. Their formal establishment as the Fund's principal borrowing facility will be a milestone for the institution and the international monetary system.

The NAB will enhance the Fund's ability to safeguard the international monetary system. Importantly, the new facility will be open to all Fund members that have the capacity, and are willing, to support the international monetary system and participants will have equal rights and responsibilities. These two features will do much to ensure that the arrangements have the broad support that will make them a central element in the management of the international financial system into the next century. The wider participation of member countries in the NAB appropriately reflects the changing structure of the world economy.

The Heavily Indebted Poor Countries (HIPC) Initiative

The measures that have been developed to assist the heavily indebted poor countries have both economic and humanitarian dimensions. They will remove the burden of unsustainable debt and help raise living standards and reduce poverty. They will lift constraints on economic policy that will allow the countries benefiting an opportunity to set up longer-term development and economic growth to make inroads against want and misery.

It is important for the success of this initiative that those countries that qualify use the opportunity to address their fundamental economic problems to lay the ground for permanent improvement. That is why the demonstration of a clear track record of sustained economic reform is required before debt relief is provided. There will also need to be a firm political commitment to undertake the further economic reforms required. The framework developed by the IMF and the World Bank is based on these important principles, and on ensuring that the resources available for debt relief are used most effectively.

Australia supports an extension of the Enhanced Structural Adjustment Facility (ESAF) as the central plank of the IMF's contribution to the debt initiative. We are also willing to consider returning our refund of contingency reserves as a bilateral contribution to ESAF.

I would like to applaud the lead role taken by the Bank in earmarking US$500 million from its net income as its initial contribution toward the debt initiative and its willingness to consider further contributions, while not losing sight of other demands on its net income. I also welcome the indication by the Paris Club, of which we are a member, that it will provide debt reductions of up to 80 percent for countries qualifying for additional relief under this initiative. Other multilateral institutions and bilateral creditors with large stakes in the heavily indebted poor countries will also need to play their part.

World Bank Reform

In March, the Task Force on Multilateral Development Banks reported to the Development Committee. The implementation of the recommendations must continue to be a matter of priority for the boards and managements of the five banks. I welcome the fact that the banks have begun to implement some of the task force's recommendations.

The task force emphasized the importance of being cost conscious. Governments around the world are under significant pressure to reassess and reduce their own costs. International institutions must accept the same scrutiny. Costs are, of course, part of transacting the operations of the banks. But in the end, the higher the costs the less finance is available for the important lending of the banks.

Mr. Wolfensohn, to his credit, has already made progress in reforming the World Bank in a wide variety of areas. He has stressed today how he plans to make it results oriented and match best private sector practice. The renewed commitment to quality and to strengthening accountability for results is very welcome. Cost control, education, training, and management will make the Bank stronger.

The World Trade Organization (WTO)

The completion of the Uruguay Round marked the beginning of a new chapter in trade relations—it underscored the stake of the developing countries in promoting free trade and extended the ambit of multilateral trade negotiations to sectors such as agriculture and services. We need to maintain the momentum of globalization and to ensure that all countries benefit from the globalization that is taking place. As Mr. Ruggiero reminded the Development Committee yesterday, trade is an important engine to growth. One of the main priorities for the forthcoming Singapore ministerial meeting should therefore be to ensure that the market access gains from the Uruguay Round are delivered and consolidated.

But greater cooperation between agencies is also important. The Fund and the Bank have been working with the WTO on formalizing their working arrangements. I hope that agreement can be reached on this without too much delay.

Access to the benefits of trade, and domestic policies that maximize the sustainable gains from that access, will do most to improve economic welfare for both developing and industrial countries.

These are our goals: economic development, sustainable growth, a stable and open financial system, and responsible policy. These are the goals of the Australian government and this is our determination—to implement them.

Statement by the Governor of the Bank for Austria

Viktor Klima

This fall of 1996, Europe's economy presents itself in a puzzling state. While some of the fundamentals, like inflation and interest rates, are low and decreasing further, growth and especially employment performance show disturbing weaknesses. Business and consumer confidence are still pessimistic on balance, even though some indicators point to renewed optimism. There are signs that the pace of economic recovery is picking up; at the same time, there are signs that in some countries renewed growth is not yet in sight. However, most indicators point to the fact that the downward trend, which set in more than a year ago, has at last come to a halt. In this situation, the recent signals coming from the European central banks have been helpful in stabilizing expectations and in giving an additional boost to investment.

Within this picture, the Austrian economy shows an above-average degree of robustness. In spite of the fact that the sizable consolidation package presented to Parliament this spring now begins to take hold, consumer spending has been quite buoyant (especially for durables), and investment activity has accelerated significantly. The rationalization and modernization requirements that the Austrian production and service sectors face in light of the recently increased competitive pressures from firms in the European Union and from the central and eastern European reform countries, have led to an expansion in investment demand.

Unfortunately, rationalization investment does not stimulate the demand for additional labor in the investing firms, thus the production sector continues to shed employment. Overall, by international comparison, the Austrian unemployment rate is very low, however. At 4.1 percent it stands at less than half the European average. Nevertheless, the situation is not one to be complacent about, since labor supply keeps growing while employment opportunities remain scarce and the number of registered unemployed is rising. Therefore, it is all the more important that the “partnership for sustainable global growth,” which we discussed in the Interim Committee, stresses policies that not only establish the conditions for sustained noninflationary growth, but also contribute to job creation and social cohesion.

At this time, domestic policy priorities combine the need to consolidate our government budget further with the need to solve labor market problems and the required restructuring of our economy in the face of globalizing economic competition. While this policy mix successfully assures that both budget consolidation and growth and employment targets can be balanced, it does not leave space for expansionary policies of the traditional type. The Austrian economy, being heavily dependent on trade with its European partners, needs growing export markets in order to return to a path of sustained economic growth.

Our consolidation strategy, which involves reducing the general government budget by around 4 percentage points of GDP within only one and a half years, has proven to be successful. Recent data show that the consolidation process is right on track, not only at the federal level, but also at the level of the states and communities. Our determination to fulfill the Maastricht stability criteria in order to join the European Monetary Union in the first round is as strong as ever. Now it is corroborated by empirically justified optimism that we will reach this ambitious target.

The Austrian government’s efforts to consolidate the budget impose significant burdens on wide segments of the population. In the short run, this leaves a strain on economic performance. We see already, however, that this strategy pays off and that we will be able to reap its rewards in the years to come. Short-term sacrifices will be turned into longer-term gains. The Austrian population understands and supports this course. The international financial markets honor it. We are on the right track.

The international community has managed to refine the instruments for preventing and coping with international financial market turbulence. Work on two of the major conclusions drawn from the Mexican crisis has now been completed satisfactorily. First, through the strengthened and improved data standard made accessible since mid-September on the Internet, the markets can get better data in a timely way, and possible market disturbances as a result of inadequate information can be avoided. Austria is one of 34 industrial and developing countries that have already subscribed to this standard and committed themselves to meeting its requirements. I should also add that it is not only the IMF that is getting more modern in this way, but also a number of member countries, including industrial countries that have to modernize and remodel their sometimes antiquated and sleepy statistical bureaucracies in the wake of this international policy initiative.

Second, the negotiations on expanding the present General Arrangements to Borrow (GAB) into the New Arrangements to Borrow (NAB), by including a number of new participants, have been completed in all important aspects and are ready for acceptance by the respective authorities and parliaments. The international financial system is thus in a better position to withstand possible challenges of a systemic nature than in the past. We are reassured by the fact that the NAB not only constitutes an increase in financial resources but also manages to maintain an efficient organizational mechanism in the form of the IMF's acting as the secretariat of the arrangements. We also feel that the establishment of the NAB represents a necessary adjustment and diversification of the circle of responsible countries to the new realities of global financial markets, which are no longer limited to the Group of Ten countries. In this sense, the NAB is the beginning of a new, more transparent and less exclusive era in international financial relations, in official policy dialogue and coordination, as well as sharing of responsibility.

At the same time, it is clear that the successful completion of NAB negotiations cannot obviate the need for strengthening the IMF's quota resources, as the NAB's use would be limited to systemic crises and would not be available for regular Fund operations. Here, while the IMF's liquidity ratio seems comfortable for the time being, caution would call for an early completion of the Eleventh Quota Review in order to meet potential demands for Fund resources. I hope we will be able to make more progress on that score in the coming months than has been the case so far.

While progress on the Quota Review to date falls short of policy requirements, the signs of a resolution of the open and protracted SDR issue along the lines of a special allocation are very promising. We need to recognize the spirit of compromise shown by the developing countries in that respect. It is now up to industrial countries to take the next step and take up elements of the compromise proposal made by the Managing Director.

The Executive Board and the Interim Committee have spent a considerable amount of time on resolving issues related to the heavily indebted poor countries (HIPC) initiative and the continuation of the Enhanced Structural Adjustment Facility (ESAF). The results of these deliberations have been acceptable and fruitful in many respects. In particular, we now have the necessary consensus for starting the HIPC initiative operations and the contours of an agreement on the ESAF.

However, I would still like to raise my concerns about an eventual sale of gold for the financing of ESAF. In my view, in a monetary institution recourse to gold sales should be only in times of an emergency situation. The reserves of the IMF should not be used for raising funds for a loan facility of the Fund, however justified the financing needs of the recipient countries may be. For good reasons, ESAF I and II were financed out of bilateral contributions, and we should not depart from the sound reasoning underlying our previous ESAF financing philosophy. But above all, I fear that by accepting gold sales we will legitimize a further major shift away from bilateral to multilateral development assistance, a policy move that might strain the IMF's role in the years to come.

With regard to the World Bank Group, I would like to congratulate President Wolfensohn for the very able leadership he showed in many ways during his first year. Under his guidance, the World Bank took an outstanding role in bringing the HIPC debt initiative toward its present state of solution. In the context of the Bank's engagement in postconflict situations, I very much appreciate that—after some initial infighting among the international institutions involved—under the leadership of the Bank, progress in the assistance to Bosnia for economic reconstruction is now becoming visible.

While I welcome these initiatives, I regret that, despite the serious efforts of the institutions under the leadership of the new president, to improve their operational activities, the agreement on IDA-11, which was welcomed last spring, now falls structurally short due to considerable cutbacks by the largest contributor. In the context of the future role and the funding principles of multilateral aid, it is of utmost importance that all donors ensure the success of IDA-11 by fully respecting their commitments on time.

I would like to use this opportunity to remind ourselves that, in addition to the valuable and important efforts to support the poorest countries through various instruments, there is the World Bank itself, which, according to its Articles of Agreement, is supposed to help borrowing countries to improve the living standards of their people. This main purpose of its existence has to remain at the core of its activities, and the financial power of the World Bank should not be seen primarily as an instrument to substantially relieve large donors of their bilateral obligations. I urge the Executive Board to consider carefully the interdependencies of the operational needs of borrowing countries and the desired level and use of the Bank's net income in order to avoid a situation where borrowing countries, in particular smaller borrowing countries, are left alone in their endeavor to improve economic circumstances in their countries. In conclusion, I would also like to inform you that Austria intends to join the Multilateral Investment Guarantee Agency (MIGA) during the coming calendar year.

Statement by the Governor of the Bank for Bangladesh

Shah A.M.S. Kibria

It is indeed a great pleasure and privilege to address the 1996 Annual Meetings of the Board of Governors of the World Bank and the IMF. I take this opportunity to extend to you, Mr. Chairman, my warmest felicitations on your election as chairman of this august body.

My country, Bangladesh, itself has gone through fundamental changes in terms of both political and economic policy during the last two and a half decades. Established as an independent and democratic state in 1971, Bangladesh went through traumatic experiences of a military coup d'état and the assassination of the founder of the state, Father of the Nation Bangbandhu Sheikh Mujibur Rahman, which weakened—if not destroyed—the foundations of democracy. The effort to build up a democratic political system was further stymied by authoritarian use of the government's power and manipulation of elections. In response to popular demand for fair and free elections under a neutral caretaker government, the constitution was amended to provide for elections under a nonparty neutral caretaker government. The present government took office on the basis of the free and fair elections held on June 12, 1996 that were acclaimed throughout the world. Seventy-three percent of voters exercised their right of franchise, with a high proportion of participation by female voters, reflecting political maturity as well as awareness among women.

The present government represents secular and liberal political beliefs. It intends to establish a democratic system on strong foundations that can be ensured through broad participation by the citizens in all spheres of public life. To establish a stable democracy, the government has already initiated reforms in the following areas:

- The parliament has been assigned the central role in the process of governance and accountability. The government has sought broad societal consensus in all critical issues and policies within the parliament as well as the larger civil society.
- To make the parliamentary system effective and the government transparent and accountable, parliamentary committees are being set

up headed by members of parliament from both treasury and opposition, who are not ministers. As our experience shows, parliamentary committees headed by ministers, as in the past, cannot establish accountability of the government.

- Representative local government institutions will be restored soon with a view to decentralizing power and enabling the communities to take decisions in matters of local public interest.
- The judiciary shall be separated from the executive branch of the government. An independent and efficient judicial system is the foundation for democratic governance, which is the prerequisite for the rule of law.
- The government is committed to the removal of corruption and rent-seeking through a series of measures including an independent judiciary, representative local self-government, and deregulation and liberalization in the economic sphere.

The present government in Bangladesh, under the leadership of Prime Minister Sheikh Hasina, has adopted an economic agenda based on market and export-led growth in an increasingly integrated world. The fundamentals of our economic development strategy, based on growth with social justice, include:

- a high growth rate rising to 7 percent per annum from 5.5 percent by the end of the century, to be sustained by adequate investment at 16–20 percent of GDP;
- alleviation of poverty and improvement of the quality of life of the people to be achieved through rapid development;
- maintaining macroeconomic balances and stability through prudent management of the budget and balance of payments, and non-inflationary growth;
- expansion and deepening of deregulation and liberalization of the economy, the design and speed of which will be adapted to our specific conditions; and
- expansion of economic space for private investment, including foreign investment, through appropriate regulatory reforms and incentives.

The goals of social and economic development that I mentioned just now are realizable, given committed political leadership. Further, we also expect that opportunities for rent-seeking and corruption will diminish as a result of deregulation and liberalization in the economic sphere, reinforced by transparency and public accountability in the system of governance.

Of late, there are alarming signs of a continuous decrease in the flow of concessional resources to developing countries. The official development assistance (ODA) to developing countries fell in real terms for six successive years. Official assistance from Development Assistance Committee (DAC) countries amounted to about 0.27 percent of their combined GNP—the lowest ratio since the United Nations adopted a target of 0.7 percent in 1970. The decrease in the flow of resources has impeded the development of both physical and social infrastructure in most developing countries, particularly the least developed countries. Enhanced private flows did little to help these countries. According to available data, only eight developing countries accounted for two-thirds of foreign direct flows in 1990–93, while half of all developing countries received very small amounts, if any. Obviously, foreign direct investment is attracted to areas with well-developed hard and soft overhead. Most developing countries will have problems in the short to medium term in mobilizing the resources necessary to build and maintain the minimum physical and social overhead required for sustainable development. For instance, to contain population growth and provide minimum health care facilities, expenditure on health alone in developing countries will have to be increased fourfold. Reduction of concessional flows from the industrial societies to developing countries will therefore pose a threat to the sustainable growth of the latter.

In this context, I would like to draw your attention to the difficult process of the International Development Association's (IDA's) eleventh replenishment. IDA continues to be the world's most important channel for providing concessional financing to the 79 low-income developing countries with a total population of more than 3 billion. IDA embodies the commitment of the industrial countries to foster economic growth, social development, and better living conditions for the people in the poorest countries. Adequate funding for IDA's operations is necessary to meet this commitment. We welcome the agreement reached at the meeting of donors in Tokyo on March 19, 1996, which will allow concessional lending of US$22 billion during July 1996 to June 1999. The funding commitment for IDA-11 is far less than that of IDA-10. The carryover from IDA-10 will, to some extent, augment IDA's lending resources. It is only a temporary solution, and IDA will continue to be seriously constrained financially to help developing countries in their development efforts as well as in their reform programs. A mechanism needs to be evolved to eliminate uncertainty about the funding of any future replenishment, which is essential to preserve IDA's multilateral character and its capacity to raise resources to sustain concessional lending at an adequate level.

The world economic outlook indicates signs of new opportunities—uninterrupted growth with subdued inflation and accelerated expansion of global trade accompanied by relative calm in the foreign exchange market. There are, however, lurking dangers, particularly in respect to the developing countries. Nontrade barriers, including demands for unrealistic labor standards, may impose new forms of protectionism that will constrain the expansion of exports from developing countries. The social and political order in many industrial countries is vulnerable to destabilization because of hard-core poverty and a rise in the absolute level of unemployment. In a number of developing countries, current account deficits are projected to widen reflecting the growth of domestic demand and the volatility of commodity prices. The IMF will have to play a more active role not only in enforcing surveillance and policy imperatives but also in providing additional resources. In this context, we welcome the initiative to make the Enhanced Structural Adjustment Facility (ESAF) a continuing facility. I am happy to report that Bangladesh has decided to contribute $1.2 million to ESAF, despite our resource constraint. We also hope that appropriate measures will be taken for an equitable SDR allocation and the Eleventh General Review of Quotas, preferably on an equiproportionate basis.

Reforms and restructuring are difficult processes, though admittedly necessary. There is no unique prescription or panacea for all problems for all countries. Programs for reforms, therefore, need to be based on contextually specific and realistic assumptions. More importantly, the relevant countries should have a greater role in designing the reform program, which alone can ensure a sense of "meaningful ownership." This is ignored all too often, which not only results in incomplete or incoherent reforms that fail to deliver the promised benefits, but also causes political instability and social unrest. It is unnecessary to mention that political stability and "ownership" are essential for policy and structural reforms. I would, therefore, emphasize that the Bank and the Fund take into account the political and economic realities in designing reform programs and the associated conditionalities. Rigidities in the technical details of conditionalities—which are liable to bureaucratic interpretation—are also likely to be counterproductive; what is required is a realistically designed and contextually specific set of reform packages.

The world stands at a critical juncture of history. On the one hand, there is almost universal recognition of the validity of liberal political and economic order; adequate resource support is necessary to restructure several societies on these lines. On the other hand, the resources available to the developing countries are getting smaller in relation to what has been available in the past, not to speak of the increased demand. The industrial countries will do well to recognize the historical implications of the decision they would take today, which will deeply influence the course of history of the world tomorrow. I would urge fervently that the Governors remain sensitive to their historical role.

In concluding permit me to reiterate the strong commitment of the government under the leadership of Prime Minister Sheikh Hasina to improve the conditions of the people of Bangladesh, the vast majority of whom live in poverty, and to implement the necessary reforms toward that goal. Development cooperation will help us achieve that cherished objective.

Statement by the Governor of the Bank for Belgium

Philippe Maystadt

One year ago, speaking to this same gathering, I emphasized the importance of providing adequate financing for development. Such support is essential for promoting the adjustment efforts of the poorest countries and improving the chances that they and their peoples have of taking their places in a rapidly globalizing economy.

Today, I am pleased to see what has been accomplished since last year. Negotiations on replenishments for International Development Association (IDA) and the African Development Fund have been brought to their conclusion; the IMF and the Bank are in the process of organizing financial support with a view to providing the poorest countries with additional debt relief; and the Paris Club has announced that it will now be able to provide debt cancellations of up to 80 percent.

I would like to take this opportunity to pay tribute to Mr. Michel Camdessus and Mr. James Wolfensohn for the decisive roles they played in bringing about the necessary consensus.

Although the prospects for financing may be better today than they were last year, it is no less true that many difficult challenges still remain.

- First, the promise to provide more resources to assist the poorest countries must be followed up by tangible measures, and we are under an obligation to produce results.
- Second, it is by no means enough to supplement the actions of the "invisible hand" of market forces by showing support for the poorest countries; in addition, we must ensure that all member countries abide by the same code of conduct. This is the only way to ensure that globalization will continue to be a force for progress in the world economy.

An Obligation to Produce Results

Ten years ago, in August 1986, the IMF Executive Board approved the first arrangement ever to be supported by the structural adjustment facility. The intention of the Fund—under the leadership of Mr. Camdessus—was to assist the poorest countries by offering them a new adjustment mechanism that would be better suited to addressing the underlying causes of their economic problems. For the first time, the revitalization of growth and the implementation of social reforms became priorities for the Fund in its activities in the developing countries.

Now, ten years later, the agreement just reached on financing a continuation of the Enhanced Structural Adjustment Facility (ESAF) and the Fund's participation in the debt initiative serve to confirm our commitment to this task. It is my hope today that in another ten years this agreement will be remembered as the decisive step in removing the debt burden from those low-income countries that are undertaking serious adjustment and reform programs. In other words, the new initiative must achieve the same degree of success as the 1989 Brady Plan. Even though the countries involved in the two initiatives are different (in the former, middle-income countries severely indebted to commercial banks; in the latter, poor countries heavily indebted to bilateral and multilateral creditors), the objectives in both cases are identical: to reduce the debt burden on the countries concerned, restore confidence in the future of these countries, attract private capital flows back to them, and reestablish economic growth.

Much is at stake. It is absolutely essential for us to succeed, and the Fund and the Bank have a direct responsibility in this matter. Programs must be drawn up to enable the poorest countries to achieve higher growth rates, and I attach considerable importance to the current evaluation of ESAF-supported programs, to be discussed by the IMF Executive Board in the spring of 1997. This will provide a unique opportunity for learning from the experience acquired since the ESAF was established, and adapting the ESAF to meet current needs.

The Uncertain Future of Multilateralism

Neither the official launching of the new debt-relief initiative nor the commitments obtained for financing it should make us forget that multilateralism faces an uncertain future. There is a clear reminder of this in the current negotiations on the replenishment of the Asian Development Fund.

With contributions from the United States and other major industrial countries declining in recent years, the multilateral development assistance system has been plunged into uncertainty. The ad hoc measures recently adopted in the context of IDA and the African Development Fund ought not to be repeated, for fear of triggering a return to certain forms of bilateralism.

As decisions for the long term should not be taken in a climate of tension and turmoil, no country should be denied the right to adjust its role within the multilateral system, insofar as burdens are duly shared and responsibilities allocated on the basis of objective criteria.

The goal, therefore, should be to devise appropriate methods for arriving at suitably objective criteria, while identifying the best way to ensure that countries can participate fully in the multilateral effort to the extent their resources permit, while honoring their future commitments. As far as these countries are concerned, it is clear that the fast-growing emerging economies, which have benefited from trade and market liberalization, will be called upon to play an increasingly important role in this process. Preliminary evidence of this is provided by the fact that some of these countries are taking part in the New Arrangements to Borrow. This trend is a precursor of the new international economic order that is expected to emerge in the next century. The emerging economies, as the chief beneficiaries of economic globalization, can be expected to take on new responsibilities within the framework of international institutions as well as in the financing of development assistance. If these countries should refuse to take their place alongside the traditional donors and lenders, I fear that the world economic system that will emerge in the next century could well be less supportive and more dangerous than the system that emerged at the Bretton Woods conference.

Abiding by a Code of Conduct

In an increasingly interdependent world community, the task of achieving security and stability will be greatly facilitated if the governments of all countries of the world can abide by a code of conduct. This is essential if the development and prosperity of the majority are not to be endangered by the irresponsible actions of the few. To be sure, such a code of conduct would be focused on a wide variety of concerns. A random selection—and the list is by no means exhaustive—might be as follows: proper regard for the environment, nuclear safety, long-term peace, human rights, effective action against drugs and corruption, and international economic cooperation. There is no doubt whatsoever in my mind that last Sunday, a whole new dimension was added to the code of conduct that I have just described, a code of conduct that all the world's countries should agree to abide by. I am referring to the new declaration adopted by the Interim Committee. As Michel Camdessus himself said yesterday, this is more than just another call to action. The adoption of this new declaration is a watershed for the following reasons:

- First, the declaration sends a universal message; it provides additional proof that globalization has brought the peoples and governments of the world closer together in a way that would have been unthinkable only a few years ago.
- Second, the declaration marks a sharp contrast to the usual "tunnel vision" approach, reflecting the wide-ranging and invaluable lessons learned as a result of the IMF's surveillance activity.
- Third, I am convinced that those governments that endeavor to implement the declaration will have chosen the most reliable method of ensuring the prosperity of their respective countries.
- Fourth, the declaration attaches particular importance to promoting good governance, ensuring adherence to the rule of law, and adopting

firm measures to deal with corruption and money laundering. Not so many years ago, the Fund's "neutrality" would not have allowed it to declare that these principles of good governance are the "essential elements of a framework within which economies can prosper."

- Last but not least, the new declaration entrusts the IMF with the task of overseeing the efforts that member countries make in these areas.

Thus, in building what Michel Camdessus has referred to as an economy with "three hands" (which are law and justice, the market, and a spirit of community), an environment will be created in which the opportunities afforded by economic globalization outweigh the potential risks.

Statement by the Governor of the Bank for Bosnia and Herzegovina

Hasan Muratovic

I have a great honor to speak to you on behalf of the delegation of Bosnia and Herzegovina, and I am pleased to say that, this time, our delegation is represented in full, with representatives of the State, of the Federation of Bosnia and Herzegovina, and of Republika Srpska.

Thus, today I speak on behalf of this delegation of Bosnia and Herzegovina, a country just emerging from a devastating period of war and destruction, and entering a time for reconstruction and for investment in the future. The war has produced horrible social and economic effects:

- more than 200,000 people were killed;
- over one million people are still refugees abroad, while some 650,000 are displaced and homeless inside the country;
- almost the entire infrastructure was destroyed or heavily damaged;
- more than 30 percent of housing was devastated;
- the war damage, in a country with 4.5 million inhabitants, exceeds US$80 billion;
- the numbers of the disabled, orphans, and people dependent on humanitarian aid are huge; and
- about 75 percent of the workforce is unemployed.

Today, in Sarajevo, capital of Bosnia and Herzegovina, despite all of the assistance Bosnia and Herzegovina has been receiving from the world, with winter nearing, in more than half of the apartments there are no glass windows in a single room. Those windows are covered only by tattered plastic sheets. The situation in smaller towns and villages is far worse.

Dozens of factories are ready to restart production, and thousands of workers might find employment, if credits of relatively small amounts of funds—totaling not more than a couple of hundred thousand U.S. dollars—could be provided for working capital.

Nevertheless, we are all very happy that, with the efforts of the international community, and primarily the United States, an agreement for a fragile peace has been concluded. The first elections were held, as you are aware, with enormous organizational problems.

We are now entering an extremely important period of setting up of the state structures, government, and institutions, in accordance with the Dayton Agreement.

The Dayton Agreement and the elections have created a chance for stabilization of peace, and we are determined to continue with the reconstruction of the country. We here all understand that, without strong, long-term support, neither stable peace nor economic recovery is possible.

On the other hand, the Dayton Agreement set up the conditions that must be respected if parties wish to receive international financial support. As a major tool of the international community it is necessary to continue with just distribution of the reconstruction assistance, in proportion to the extent of destruction and degree of compliance with the agreement, and not primarily on the basis of ethnic criteria.

The international community has assisted, and continues to render assistance to, Bosnia and Herzegovina. Unfortunately, although this assistance is certainly remarkable from the donor standpoint, it has, nonetheless, proved insufficient to bring about significant progress so far.

Of US$1.8 billion pledged in grants and loans, less than one-half is in the implementation stage as of this day. Even for this part, the pace of implementation is slack due to the complexity of procedures and slow decision making. The world must act in Bosnia and Herzegovina with still greater determination.

Allow me here to commend most highly the efficiency of the World Bank. Within a very short period, we succeeded in defining, jointly with the World Bank, fundamental strategies of our economic reconstruction, reprogrammed our old debts, and began using new loans. Let me state this quite clearly: without such efforts of the World Bank, the situation in Bosnia and Herzegovina would be catastrophic by now. Approximately one-half of the funds in implementation today in the reconstruction program of Bosnia and Herzegovina either came directly from World Bank loans or were mobilized with their great assistance. The World Bank also managed preparations for both donor conferences held so far. Here I wish to express our most profound gratitude and convey our respect to President

Wolfensohn and the World Bank experts involved in programs for Bosnia and Herzegovina.

Also, I would use this opportunity here to invite the donor countries to support projects of the World Bank for the reconstruction of Bosnia and Herzegovina through the provision of cofinancing of these projects.

We are of the opinion that, in cooperation with the World Bank, we can make further quality progress through the securing of larger amounts of International Development Association (IDA) credits already for this year. Additional funds will be best utilized if given in a form of a new transition assistance credit (TAC).

But I believe that we all here understand fully that the support of the World Bank alone is not sufficient to ensure full recovery of Bosnia and Herzegovina. Even stronger efforts must be made to expedite mobilization of the funds that have already been pledged. In addition, we are fully convinced that the donor conference for 1997 should take place before the end of this year. The major reason for implementation delays so far is the fact that this year's conference was held too late—in April 1996.

For its own part, the government of Bosnia and Herzegovina has assumed the obligation to create conditions for using donor money in the best possible way. In order to ensure transparency, the government, in cooperation with the World Bank, continues to work on the establishment of a Procurement Monitoring and Auditing Unit. With the assistance of the World Bank and IMF, the payment system, Customs and Tax Administration, Financial Police, Banking Supervision Agency as well as the Privatization Agency, and the systems of pension, disability, welfare and health care funds, have been set up. For the purpose of coordinating reconstruction throughout the country, a Reconstruction Cabinet has been established at the state level, and a complete structure for project implementation has been put in place.

Here, unfortunately, I have to point out that a huge obstacle in implementation of the reconstruction program continues to be a lack of proper institutions at the level of the Federation, due to the existence of the Bosnian Corat parastate, the so-called Herzeg Bosnia.

Therefore, we shall need stronger international support so that the Federation will finally function in full.

On the other hand, on the part of donors, complicated mechanisms of procurement slow down the process of implementation. Our expectations are that radical changes will occur in this field as well, in order to accelerate implementation of the projects.

Together with the World Bank, we are working to develop a fund for banking guarantees in order to attract foreign investors. We welcome the decision of the Multilateral Investment Guarantee Agency (MIGA) Governing Board, of September 14 of this year, on the basis of which Bosnia and Herzegovina succeeded to the membership of this organization. We hope that, as soon as next year, a special trust fund for Bosnia and Herzegovina will be established within this organization's framework. We also welcome the recently adopted decision by the International Finance Corporation (IFC) Board concerning the first project in our country, and we hope that its implementation will soon be under way.

We also expect cooperation with the IMF in the establishment of a new central bank in the very near future and with swift introduction of a new single currency for Bosnia and Herzegovina soon afterwards.

In the macroeconomic sphere, we shall implement policies aimed at reinforcing reintegrative trends in the country, at the same time ensuring economic growth in keeping with a future IMF program, which we intend to initiate as soon as possible. Fiscal policy will focus on preservation of monetary stability with avoidance of any borrowing at all government levels. Budget expenditures will be strictly monitored, with regular review of priorities and reliance on collected revenues with avoidance of any form of domestic borrowing, particularly in the wage and social contributions sector.

Negotiations about the IMF program should start immediately. All conditions for an Enhanced Structural Adjustment Facility (ESAF) program have been fulfilled, and it is hoped that an agreement can be reached expeditiously. This is connected to the pressing need of Bosnia and Herzegovina for assistance in reducing foreign debts as a precondition for successful restoration of the country's borrowing power and for attracting additional funds for the reconstruction. Without significant writing off and reprogramming of debts under the most favorable conditions, it will be impossible to ensure long-term financing of the reconstruction. Very soon, this may destroy all results of past and present efforts of the international community in this area.

Let me conclude by reiterating that Bosnia and Herzegovina needs urgent, more intensive and long-term assistance. At this time, it is indispensable to:

- ensure quick reaction credit lines for rehabilitation of existing companies and the development of new ones. Only credit can restart the economy;
- mobilize formerly pledged grants and loans;
- urgently hold the next donor conference, in any case before the end of 1996, in order to agree on new priorities and find ways for their financing;
- encourage foreign investors to invest in Bosnia and Herzegovina, and open credit lines to support them;
- expedite IMF activities on the establishment of a central monetary institution and monetary system, and start implementation of an ESAF program;

- resolve the issue of old debts; and
- increase technical assistance to facilitate more effective establishment of the institutions.

All this requires assistance of foreign experts and international institutions. For our part, we shall do everything necessary and everything in our power to speed up and facilitate resolution of these and other pressing problems.

Let me reassure you, one more time, that the basic orientation and policies of the government of Bosnia and Herzegovina, despite the impending transfer of power and establishment of a new structure, will remain the same. This reconstruction program is the only hope for our country, and no government can fail to recognize it. But, even with all our determination, we shall continue to need and count on you and the international community as a whole—as much for political support to a united and sovereign Bosnia and Herzegovina as for funding and expertise needed in our economic recovery.

I wish to convey to you here, and to all your associates, that we highly appreciate the enormous efforts and assistance extended to our country so far in this vastly complex undertaking. Together, we have done a great job, and I know that we shall all continue to do so. And, it is this knowledge alone that makes me certain that we cannot fail.

Statement by the Governor of the Fund for Bosnia and Herzegovina

Kasim Omicevic

When discussing Bosnia and Herzegovina, either in Sarajevo or in numerous international meetings all over the world, there are at least two essential facts to be respected. The first is the readiness of the people and citizens of Bosnia and Herzegovina to implement the General Framework Peace Accord for Bosnia and Herzegovina, including all of its annexes and elements. The second is the need for significant support of the international community to restore peace and renew and reconstruct the country on the basis of this peace accord.

Since the cessation of hostilities, Bosnia and Herzegovina has directed all its activities and available resources to preserve peace and, parallel to the establishment of democratic institutions, to start economic recovery and revitalization.

The key causes of a very difficult postwar economic and social situation in the country will be alleviated or partly removed only over the medium term. It is important to point out that Bosnia and Herzegovina has already taken the first steps toward economic recovery.

Between January and August 1996, industrial production increased by 82.3 percent, compared with the same period in the previous year. (This is less than 10 percent, compared with the average in 1991.) It is estimated that 25 percent of the prewar labor force is employed and that their wages in July 1996 amounted to some DM 120, on average. Market supply of basic agricultural and foodstuff products, as well as relatively low and stable prices, significantly contributes to an easier life for the citizens, at least those who are employed or earn some income. Retail prices of goods and services during the same period are lower by 30 percent. Compared with the prices in December last year, they are now stable. It is more than two years since the government of Bosnia and Herzegovina borrowed funds from the National Bank of Bosnia and Herzegovina or from commercial banks, although it has been facing a series of difficulties in financing public expenditures, particularly large social needs.

The exchange rate of DM 1 per BHD 100 was fixed in the summer of 1994 and remains firm. Deviations of the exchange rate in free market operations have been reduced only to several percent, while the scope of these transactions is negligible. The National Bank of Bosnia and Herzegovina has been operating de facto, for more than two years as a currency board.

Bosnia and Herzegovina quickly joined the international financial community, becoming a member of the IMF only six days after signing the peace agreement in Paris. Soon after this, membership in the World Bank and the European Bank for Reconstruction and Development was acquired. At the end of 1995 and at the beginning of 1996, two international donor conferences were organized in Brussels, where support of $1.8 billion was pledged for 1996. The schedule of disbursement of the resources was rather slow at the beginning of the year, although the flow of funds has improved during the past months.

The World Bank is leading in the overall activities in Bosnia and Herzegovina, particularly in various credit arrangements. Bosnia and Herzegovina has reached agreement concerning 13 projects with the World Bank in the course of 1996, has regulated its credit arrears, received a very soft loan, transition assistance credit (TAC), for supporting its balance of payments, and continued its work on the economic program, as well as on the preparation of new projects. Of course, significant help is being received, or is about to be received, from the United States, the European Union, Japan, and Islamic countries, among others. It is expected that soon special arrangements with the IMF—probably under the Enhanced Structural Adjustment Facility (ESAF)—will be concluded, as well as intensification of activities concerning regulation of arrears payment to the Paris Club and London Club.

In view of the above, I would like to thank the World Bank and the IMF, and the donor community for their endeavors in this process, and I would like to express my hope that this cooperation will continue in an even more intensified manner.

However, when making the final count it can be estimated that during this year only some 50 percent of funds pledged in Brussels will be implemented, mostly owing to the slow action of some donors, but also because of the initial difficulties in the process of adjusting to the new challenges in Bosnia and Herzegovina.

After the elections held on September 14, 1996, the following institutions will be established: the presidency, parliament, the council of ministers of Bosnia and Herzegovina, the presidents and vice presidents, the parliaments, and the governments of both entities (of the Federation of Bosnia and Herzegovina, and of the Republika Srpska), and cantonal bodies in the Federation of Bosnia and Herzegovina. It is of special importance that those bodies take over their responsibilities, as determined in the constitution, as soon as possible; focus their attention and work on the establishing of the new institutions, primarily the economic and market institutions; and establish a consistent economic program and macroeconomic policies (especially fiscal and monetary policies) for the medium term.

The establishment of the new central bank is among the top priorities. The central bank will be the only institution in charge of monetary policy and issuing money. During the first six years of its work, it will function as a currency board. The central bank, a monetary institution independent from the government, will be governed by the governing board, consisting of a governor and three board members, with a six-year term. The staff of the IMF and the staff of the High Representative's Office is significantly supporting technical preparations for the establishment of the central bank and the steps toward creation of the conditions to start the reconstruction of commercial banks. This will facilitate the transition process (from an economy during war to one during peace, and from a socialist to a market economy, with private property as a dominating factor), which will represent one of the key factors of economic reconstruction and development of the country.

Furthermore, it is important to mention the future economic integration of Bosnia and Herzegovina, which, through the authorities and economic institutions, is to be carried out through more efficient mobilization and direction of international financial support and technical assistance, especially by the international financial institutions and numerous international donors.

Statement by the Governor of the Bank for Cambodia

Keat Chhon

I am pleased to be here today to represent the Kingdom of Cambodia at this august annual assembly of top-level macroeconomic policymakers of the world community. My delegation brings to you all the warm greetings and good wishes of the people and the Royal Government of Cambodia.

This is an opportune time to take stock of our past successes and shortfalls in achieving socioeconomic growth with equity and to project our vision to the next century a mere five years from now. We will all stand judged by posterity if we do not set in motion measures to ensure a better twenty-first century for our future generations by policies that we adopt from now on. It is in this context that I would like to share with all of you a perspective and a plea from Cambodia as one of the poorer countries.

As is widely known, after two decades of war and international isolation and neglect, Cambodia began its fresh lease on life three years ago. We are beset by many daunting tasks and challenges in our earnest endeavors to rehabilitate our war-torn economy; to rebuild our political, economic, and social institutions from scratch; and to rapidly usher in an era of peace, prosperity, and growth for our people. In rebuilding our nation with one of the lowest per capita incomes in the world, multifarious initiatives are to be launched all at the same time, and everything needs to be fast-tracked to make up for the lost decades. We are grateful for the international attention, advice, and generous financial and technical assistance to help us in our efforts.

Much has happened in Cambodia, all for a better future, in the last three years, indeed even since we met here last year. Our economy has commenced a steady and robust growth, reversing the uncertain trends of the past. Inflation has been contained. Our national currency enjoys relative stability under clear market conditions. Our national monetary institutions have been revamped. Our revenues are growing and becoming diversified. We are into a major process of public administration reform to make the state apparatus more relevant and responsive to a modern market-oriented economy. Private investment is vigorous and growing, and trade is vibrant.

The international community noted and commended us on our achievements at the first consulting group type meeting held in Tokyo in July. A month later, a team of Executive Directors of the World Bank visited us and held extensive discussions with our two Prime Ministers and various groups in the society. I believe they were equally impressed and assured about our progress and commitment for the future.

Politically, a coalition royal government is stable in spite of overblown media accounts of day-to-day differences that will exist among coalition partners anywhere in the world. Also, in a major joint effort among these parties, the threat of the outlawed Khmer Rouge, already confined to some remote pockets of international borders, has been recently reduced significantly, as many of them have agreed to a truce and to joining the national mainstream. This takes us one major step towards lasting peace although some may mistakenly look at only the temporary effects of concessions that have been made.

Our significant achievements in a short period are presently being endangered by the heavy flooding along the Mekong River. And there are many other challenges before us, including new ones still to arise as we proceed ahead. The internal issues include the paramount need to focus on poverty alleviation and the sustainable management of our natural resources, in particular of our forestry capital; the external factors encompass the need to integrate our economy into the region. We have the political determination and commitment to take the country forward speedily. We are, at the same time, conscious that progress can be stable and sustainable only if there is a dynamic, ever-adjusting equilibrium—politically, socially, and economically.

Countries such as Cambodia, which are emerging from long years of internal and externally imposed instability, need special understanding, consideration, and support from the international community as they launch into an era of development. New instruments have to be chiseled to help them, and new and bold strategies are needed. Let me highlight a few:

First, we need strong assurance from the international community of continued support over the long haul of, say, a decade or more. We are therefore disappointed to note that IDA replenishments are now slight and slow in coming, leading to new assistance being funded from the interim trust fund in some cases. We urge the international community to contribute generously to this soft window and earmark a special portion of funds for countries such as Cambodia so that unpredictable vagaries of international situations do not affect assistance to us.

Second, the IMF needs to be more liberal and understanding in applying criteria for Enhanced Structural Adjustment Facility (ESAF) assistance. This is because, even as we struggle to adhere to all the strict parameters, there are inescapable internal political realities and external adjustments to be made with our neighbors, all necessary for longer-term stability, which in the short term impose restraints on the pace of our progress.

Third, we welcome the Bank President's initiative to earmark internally generated Bank funds to alleviate the severity of the external debt situation of poorer countries. International debt, which was incurred a long time ago and used during externally imposed conflict situations or the assets of which were destroyed in such conflict, poses a great burden on the economy. We need support and understanding to readjust these loans, mostly by write-off. Also, it is necessary for institutions like the IMF and the World Bank to persuade our creditors to adjust repayment terms to current rates of exchange rather than the highly illusory rates at the time the debts were incurred.

Fourth, there is a strong case for increasing technical assistance on a grant basis from international institutions like the IMF and the World Bank.

Fifth, we are wedded to fostering private-sector-led growth and development where individual initiative and enterprise will have full play in a market-oriented environment. For increased and more rapid private investment to take place, we urge for the most favorable and sustainable terms of trade with industrialized nations.

Sixth, we appreciate the International Finance Corporation's Reach Initiative, the Mekong Project Development Facility, and the Asian Development Bank's role in the Greater Mekong Subregion or Mekong 6. We urge that these be aggressively followed to promote private sector investment in countries such as Cambodia.

Distinguished colleagues, I have raised these issues because I believe that the strong growth of emerging postconflict countries is a necessary underpinning for sustaining peace, stability, and growth, not only in the immediate region, but globally. Let us make a commitment to solve the problems of poorer countries to assure a bright world for all of us in the next century.

Statement by the Temporary Alternate Governor of the Fund and the Bank for Canada

Douglas Peters

Global Economic Situation and Policy Requirements

In recent years, significant progress has been made in addressing many of the key macroeconomic policy challenges of the global economy, especially in the larger industrial countries where inflation has been reduced substantially and, over the past year, has remained under control. Commitment to fiscal consolidation has reduced government deficits, with many deficits now on a clearly downward trend. These achievements have created the enabling conditions for lower interest rates, higher sustainable rates of growth and job creation, stronger investment, and improved current accounts.

Despite this important progress, there remain unmet challenges. Many economies continue to experience a relatively slow pace of economic recovery and expansion. The disappointing pace of economic growth in many industrial countries over the past year has postponed expected drops in high unemployment rates.

How can we improve our prosperity? The general policy prescriptions—sound public finances, price stability, and structural reforms—embodied in the Interim Committee's Madrid Declaration two years ago remain the best long-term program for creating jobs and prosperity. Some policymakers have expressed concern that further fiscal consolidation will only worsen an economic slowdown. In some countries, however, postponing essential deficit reduction has led to financial market turmoil, which is a prescription for continued economic weakness. Indeed, the challenge is to balance credible and decisive fiscal consolidation maintaining needed social programs for the needy and using monetary policy to offset any short-term contractionary effects. And I would note that this is consistent with a medium-term objective of price stability.

The fact that unemployment remains unacceptably high in many countries highlights the need for more rapid economic growth as well as for skills to be better matched to employers' needs. If we improve the effectiveness of labor markets by removing unnecessary regulations that discourage hiring and improve the ability of workers to match their abilities with the skills employers are demanding, a better employment situation should result.

It is encouraging that the improvement in economic fundamentals in recent years has not been limited to the industrial countries. Many transition economies are benefiting from financial stabilization and structural reform through stronger output growth and substantially lower inflation. Strong growth in a number of African countries has also resulted from efforts at fiscal consolidation, structural reform, and steps toward improved governance. These visible payoffs for macroeconomic and structural reform encourage other countries to follow suit.

Canada's Policy Approach

Canada is a good example of a country now reaping the benefits of sound macroeconomic and structural policies. The Canadian government has committed to macroeconomic targets as well as to structural reforms, to create an environment conducive to job creation and sustained economic growth.

Canada's fiscal policy combines a program of deficit reduction with a careful evaluation of programs and a setting of priorities. A sequence of rolling two-year deficit targets has been adopted, and the deficit has been below its target each year. Recognizing that tax increases reduce incentives to work, save, and invest, the bulk of deficit-reduction actions have been expenditure measures. Both the federal and also all provincial governments within Canada are committed to deficit reduction.

Explicit targets have also been established in the conduct of monetary policy. The government and the Bank of Canada have jointly established a target range for inflation of 1–3 percent that extends through to the end of 1998. Monetary policy is geared to keeping inflation within this target range.

Structural reforms have also been undertaken to improve economic efficiency. These include the reduction of business subsidies, the privatization of Crown corporations, and the reform of social programs, including labor market reforms, to increase work incentives and better prepare workers for job opportunities.

While Canadian economic performance in 1995 and early 1996, like that of many other industrial countries, was weaker than expected, the outlook for 1997 and beyond appears strong. Continued low inflation and fiscal consolidation in Canada have led to sharp reductions in Canadian interest rates since 1995, which, in turn, are stimulating domestic demand. Short-term interest rates are presently some 150 basis points lower than those in the United States, and long-term spreads with the United States have narrowed by over 100 basis points over the past year. An increase in Canada's international competitiveness has been reflected in a surge in exports and a marked improvement in Canada's international current account position. In the second quarter, Canada's current account recorded a surplus for the first time since 1984. Further, the private sector has created 220,000 new jobs since last November, a 1.9 percent increase, indicating that one of our key objectives, sustained job creation, is being realized.

International Challenges

We collectively face other challenges in the realm of global governance. One of these is the need to ensure the robustness of the international monetary system in the face of potential financial crises. We have recognized a need to strengthen the capacity of the international community to anticipate problems (and, thus, to avoid full-blown financial crises) and to respond to such situations effectively. I am very encouraged by the progress we have made, particularly over the past year, with the implementation of several noteworthy reforms.

- The IMF has introduced the new Special Data Dissemination Standard for capital market borrowers, to provide more timely and reliable economic and financial statistics to institutions and markets. This will improve surveillance capabilities and make it easier for both markets and the international institutions to identify problems before they reach crisis proportions.

- Final agreement has been reached on the New Arrangements to Borrow (NAB), doubling the resources currently available to the Fund in a financial emergency. This new agreement reflects the participation of a wide range of countries, extending far beyond the Group of Ten, with the capacity to support the international financial system. I am particularly pleased by the important role Canadian officials played in bringing this about.

Still on the agenda are a couple of important resource issues for the Fund.

- We must ensure that the Fund has adequate resources for regular lending operations. Accordingly, we must make early progress on the size of the quota increase in the Eleventh General Review of Quotas.
- A number of new members did not participate in earlier SDR allocations, leading to the present inequitable distribution of SDRs. We must reach decisions soon on the size and distribution of a special equity SDR allocation.

Let me now turn to issues of importance to Canada regarding the World Bank and the regional development banks. First, I am pleased with the progress President Wolfensohn has already made in his effort to bring about reform at the World Bank. The Bank has improved cooperation and coordination with other multilaterals (including regional development banks and the United Nations); expanded contact with local communities, nongovernmental organizations (NGOs), and borrowing countries; and established new and important links with the business community, private foundations, the academic community, and others. I am confident that President Wolfensohn's reforms will significantly increase the Bank's efficiency and its development effectiveness, and I fully support his continued efforts.

Second, I am delighted that we are now in a position to launch the initiative to assist heavily indebted poor countries (HIPCs). Excessive indebtedness, often compounded by large negative transfers to the international financial institutions (IFIs), imposes serious constraints on economic reform and broader development prospects. Effective development strategies for these countries must therefore incorporate debt relief as well as expenditures on new projects and programs. The HIPC debt initiative, embodying a much-needed comprehensive debt-relief effort by all major creditors, including, for the first time, the IFIs, holds great promise for those among the poorest, most indebted countries that are committed to necessary reform.

A third issue of importance to Canada is the improvement of the development impact of operations of the World Bank and the regional development banks. This was a major focus of the Multilateral Development

Bank Task Force Report. Improving the development impact is essential to reducing poverty and fostering sustained development. I believe there are four priorities here that must be addressed. First, continued efforts are required to improve the quality of projects, and this must take precedence over the volume of loan approvals or disbursements.

Second, multilateral banks must work together to establish reliable and consistent impact indicators that measure the effectiveness of development. Third, national accountability for results must be further strengthened in lending decisions, taking into account, for example, unproductive expenditures (particularly excessive military spending). Fourth, lending programs should better reflect the potential role of the private sector. While responsible and efficient government is essential, there are some things that the private sector can do better in areas such as the financial sector, power, telecommunications and information technology, industry, and mining. Addressing these priorities will have a positive impact on development and will help demonstrate the benefits of international cooperation and coordination. The poor countries of the world will be the ultimate beneficiaries.

Finally, I am encouraged by the flows of private capital we have seen in the 1990s from the industrial economies to the emerging economies, including a growing number of developing economies. These flows are of great importance to the developing world at a time when aid budgets are under pressure in donor countries. They do pose challenges of their own. But they also hold the promise of great benefits—not just in the transfer of capital, but in the transfer of new technologies and new methods of doing business. We should all do what we can to ensure that these flows of private capital are used effectively to improve the well-being of people in the developing world.

Statement by the Governor of the Fund for the People's Republic of China

Dai Xianglong

Please let me first congratulate Mr. Camdessus on his being reelected as Managing Director of the Fund. I believe that, under the leadership of Mr. Camdessus and Mr. Wolfensohn, the Bretton Woods institutions will make due contributions to the promotion of international monetary cooperation and sustained world economic development.

Since the last Annual Meetings, the world economic situation has continued to improve, and prospects are broadly favorable. Inflation has remained generally low in the industrial world and has significantly decelerated in the developing countries, thanks to the improvement in their macroeconomic management and the deepening of structural reforms. These developments are conducive to sustained world economic growth. The impressive economic performance in many developing countries has made them a powerful engine and a most dynamic element of the world economy. Particularly encouraging is that Africa's growth prospects have further improved following their vigorous structural adjustments. Many developing countries in Asia have adopted prudent financial policies to avoid overheating and to sustain healthy economic development. Further progress has also been made in transition countries, with some of them enjoying a relatively high rate of economic growth. We have noted the continued economic growth in the United States and the recovery in Japan, despite weak growth in most European countries.

Despite the recent favorable developments, challenges facing the world economy are still enormous. Many industrial countries are confronted with high fiscal deficits, and persistently high structural unemployment resulting from labor market rigidities has increased their fiscal spending and social costs. The protracted high fiscal deficits and their excessive reliance on monetary policy have not only been unfavorable to their domestic economic growth, but have also been a major factor underlying the international financial market instability. Industrial countries are urged to strengthen fiscal consolidation, accelerate labor market reform, and contain fiscal deficits, so as to create favorable conditions for lower interest rates in the international markets and minimize uncertainties in the world economic outlook.

The task for further structural adjustments and reforms is still tremendous in the developing and transition countries. We are delighted to see that a growing number of developing countries are making efforts to eliminate structural impediments and improve their macroeconomic management. For emerging market countries, given the increasing sensitivity of international capital flows to the macroeconomic conditions in recipient countries, maintenance of macroeconomic stability is crucial to sustaining economic growth and withstanding external disturbances. Heavy debt burdens in many developing countries constitute severe impediments to their economic development. The Bretton Woods institutions are therefore encouraged, on the basis of their respective mandates, to play a more active role in assisting heavily indebted poor countries in alleviating their debt burdens and promoting economic development. We hope resources for financing the interim Enhanced Structural Adjustment Facility (ESAF) can be secured at an early date. The industrial countries are urged to make due contributions toward the reduction of poor countries' debt burdens and to refrain from cutting official development assistance with various excuses.

The smooth development of world trade is crucial to sustained global growth. However, the substitution of unilateralism for multilateralism and frequent resort to trade sanction measures by some industrial countries have damaged multilateral trade rules and threatened the order and expansion of international trade. It is essential for industrial countries to reduce nontrade barriers and provide greater market access for the developing countries. The unreasonable demands of certain contracting parties have delayed China's access to the World Trade Organization (WTO), jeopardizing the universality of its representation and bringing unfavorable consequences for the healthy development of world trade. China has made its position clear on WTO membership, namely, China is prepared to assume the due rights and obligations consistent with its level of economic development based on the Uruguay Round. China has fulfilled all of its commitments and met the WTO membership qualifications. We believe that China's early accession to the WTO will not only facilitate further progress in its reform and opening to the outside world, but will also enhance its trade cooperation with the rest of the world and, consequently, promote world economic and trade development.

China has made remarkable progress in economic reform and opening to the outside world. At an average rate of 11.8 percent, China's real GDP growth in the last five years has been the strongest and most stable in nearly five decades, resulting in a significant improvement in the standard of living. The reform has also led to the rapid development of trade and China's integration with the world economy. Imports and exports have increased at an average annual rate of 19.5 percent to US$288 billion in 1995, accounting for 40 percent of GDP. The favorable investment environment and the huge size of the market have attracted massive foreign capital, which has added impetus to the Chinese economy. With years of effort, China has made a breakthrough in its economic reform and, as a result, the fundamental role of market forces in resource allocation has been greatly strengthened.

The Ninth Five-Year Plan formulated early this year envisages a target of quadrupling China's 1980 per capita GDP by the end of the century and the virtual elimination of poverty. The Chinese government attaches great importance to the sustainability of economic development and particularly to the quality of growth. The year 1996 witnessed a good start to the Ninth Five-Year Plan. Real GDP increased by 9.8 percent in the first six months and is expected to stabilize at 9 percent for 1996; inflation, measured by the retail price index, decelerated to 7.1 percent and is projected to be about 7 percent for the whole year. The summer grain harvest was satisfactory, and industrial production continued to grow. Investment and consumption demand grew at an appropriate level. Fiscal revenue increased significantly, and the financial conditions remained stable. The balance of payments continued to improve, with imports and exports at a balance, and foreign direct investment amounting to US$19.6 billion in the first six months. Foreign exchange reserves are expected to reach US$95 billion at the end of September. The current macroeconomic environment is significantly better than a few years ago, with fulfillment of the key economic targets envisaged at the beginning of the year—some even better than anticipated. Macroeconomic adjustment has not been implemented at the expense of sustained high growth, nor has it caused a substantial rise in urban unemployment.

We are well aware of the challenges facing the Chinese economy, particularly the need to enhance the efficiency of the state-owned enterprises, further strengthen the fiscal position, and improve the quality of the commercial banks' loans. The solution to these problems lies in deepening the reform and maintaining appropriately tight monetary and fiscal policies. The interest rate cuts on two occasions this year were mainly responses to substantial declines in prices. With controlling inflation as its primary task, the People's Bank of China will maintain an appropriately tight monetary policy, rely more on indirect instruments in controlling the money supply, and, together with an appropriately tight fiscal policy, facilitate sound economic development.

Since July 1, 1996, China has allowed foreign-funded enterprises to sell and buy foreign exchange with banks, and has eliminated exchange restrictions on payments for trade and trade-related current transactions. China expects to introduce current account convertibility of the renminbi by the end of this year, thus meeting the relevant obligations of Article VIII of the Articles of Agreement well ahead of our original schedule.

The sustained high economic growth rate over the past 17 years, which has far exceeded that of the world average, has significantly enhanced China's relative economic strength. However, its share in Fund quotas has continued to decline, which is contrary to the principle that the distribution of Fund quotas reflects the relative economic positions of members. Effective measures are called for to address such anomalies.

China's resumption of its exercise of sovereignty over Hong Kong, which will take place in nine months, is of great interest not only to the Chinese people, including those living in Hong Kong, but also to the international community. The social and economic situation in Hong Kong is generally favorable for a smooth transition. China will strictly implement its commitments made in the Sino-British Joint Declaration on the Question of Hong Kong; will abide by the Basic Law of the Hong Kong Special Administrative Region; and will, after the return of Hong Kong, adhere to the principle of "one country, two systems." Hong Kong will enjoy a high degree of autonomy and be governed by local inhabitants. Its current social laws and economic systems and lifestyle will remain unchanged. Its existing laws will also basically remain unchanged. It will retain the status of a free port and a separate customs territory. The Hong Kong dollar will continue to circulate as legal tender in the special administrative region. It will also retain the status of an international trade, financial, and transportation center. Foreign interests in Hong Kong will be given due regard. The Chinese government will keep these policies intact for 50 years. We have full confidence in Hong Kong's long-term prosperity and stability.

The financial relationship between China's mainland and Hong Kong after the transition will be characterized by the coexistence of two currencies, two monetary systems, and two monetary authorities within one sovereign state. The central government will remain fully supportive of the Hong Kong Monetary Authority in its endeavors to maintain financial stability and its status as an international financial center.

Next year's Fund/Bank Annual Meetings will be held in Hong Kong. It will be the first important international meeting to take place in Hong Kong after China's resumption of the exercise of its sovereignty over Hong Kong. The Chinese government will have the honor of playing host. We will do everything possible to make the meetings a great success. I am looking forward to seeing you all again in Hong Kong next autumn. Welcome to the Annual Meetings in China, and see you again in Hong Kong.

Statement by the Governor of the Fund for the Republic of Croatia

Marko Skreb

Following a decade-long stagnation of the former Yugoslavia in the 1980s, the Croatian economy suffered a tremendous supply shock caused by the disintegration of Yugoslavia and by aggression toward Croatia. GDP decreased by one-third. However, in 1995, some signs of growth of the Croatian economy started to show. The 2 percent growth in GDP (the first since 1990) was moderate compared to expectations. After decades of high inflation and even periods of hyperinflation, expectations were more than optimistic, following the implementation of the Stabilization Program by the end of 1993. During 1995, Croatia regained control over major parts of its territory under occupation, and peaceful reintegration of eastern Slavonia is proceeding well.

Price and exchange rate stability has been maintained for the third consecutive year. After 3 percent deflation in 1994, retail prices increased by only 3.7 percent during 1995, which places Croatia at the top of countries in transition, and is more in line with trends in developed countries. Furthermore, developments in the first eight months of 1996 indicate that Croatia's inflation over the past three years will continue to average 1 percent annually. Despite the fact that Croatia's domestic currency, the Croatian kuna, has been floating, it has shown remarkable stability both in nominal and in real terms.

These results were achieved in an environment of very rapid remonetization of the economy and reverse currency substitution. In 1995, base money, the main product of the central bank, grew by 43 percent, while at the same time the broad monetary aggregate, or total liquid assets (M4), grew by 40 percent. In 1996, these trends have continued, though at a slower pace. During the first eight months of 1996, money supply has increased by 26 percent. Although monetary policy has not changed since 1993, the main means of creating base money have been interventions by the central bank in foreign exchange markets. At the end of 1995, net foreign assets of the central bank amounted to more than 95 percent of the total balance sheet. Presently, the amount of international reserves is about US$2.3 billion, which surpasses the money supply.

These results were achieved not only through radical changes in the monetary policy instruments (introduced after the establishment of monetary independence), but also through enormous reform efforts within the fiscal area. Despite lower tax rates, overall central budgetary revenues have tripled over the past four years, making the central budget share of GDP about one-third. However, the main stabilization factors included a budgetary surplus in 1994 and a moderate budget deficit amounting to 2 percent of GDP in 1995.

A similar budget deficit is expected for 1996. More important, the deficit mentioned was not financed through the central bank, but from external sources. Today, Croatia has one of the lowest profit tax rates of 25 percent and is about to introduce a modern single-rate VAT of 22 percent.

The 1995 current account deficit of around 9 percent of the estimated GDP has been the main topic of numerous discussions. However, it is important to note that this deficit was a result of the increase of both imports and exports. Nevertheless, we should keep in mind that in conditions of relatively low domestic savings, real growth can be financed only from foreign sources.

In 1995, international reserves of the central bank grew by 35 percent. By September 1996, the international reserves of the National Bank of Croatia reached the level of three months' worth of imports of goods and nonfactor services.

The past two years have been marked by the resolution of the external liquidity problem, i.e., external debt incurred mostly by the former Yugoslavia. In March 1995, we reached an extremely important arrangement with member countries of the Paris Club, and by end-July 1996 an agreement with the London Club was completed as well. Croatia's total external debt amounts to US$4.5 billion, which is 23 percent of the estimated GDP, resulting in a very comfortable debt-servicing ratio of no more than 10–11 percent in the coming years. We do view these numbers as favorable, and we regard them as an addition to our overall external credibility.

At the same time, we expect the international community will assist us, not only in dividing liabilities of the former Yugoslavia, but assets as well.

Relations with the IMF and the World Bank

It can be said without hesitation that Croatia has enjoyed excellent relations with both the Fund and the World Bank Group. The stand-by and Systemic Transformation Facility (STF) arrangements with the IMF were carried out successfully, contributing to the overall credibility of the Croatian stabilization program that started a year before the arrangements with the Fund. At the same time we have benefited from numerous programs with the Bank, which included an emergency reconstruction loan, health care sector programs, and road infrastructure facilities. Smaller programs in public sector management, development of capital markets, and private farmers' support were greatly appreciated as well. Their total amount comes to US$280 million.

Needless to say, our plans for the future are even more optimistic. We repeatedly have emphasized that structural reforms are the key to Croatia's prosperity. Thus, we are now entering the final phase of negotiations with the IMF on a three-year Extended Arrangement, and the progress achieved so far in negotiating several loans, the Enterprise and Financial Sector Adjustment Loan (EFSAL), the Public Sector Adjustment Loan (PSAL), and the Agriculture Sector Adjustment Loan (ASAL), with the World Bank is substantial as well. Six more projects are being prepared for the future in regional infrastructure, environment, etc. Croatia has adopted the Special Data Dissemination Standard (SDDS) to ensure prompt and transparent information on its economic policies, and supports the continuation of the Enhanced Structural Adjustment Facility as well.

Economic Policy Priorities for the Future

After achieving stability should we now turn toward development? In brief, macroeconomic populism has been gaining ground. It seems that there have been two conflicting goals, namely, a trade-off between stability and growth. We do not believe in the long-term Phillips curve, and we regard stability as a necessary condition for sustainable growth in the future. Decision makers in Croatia firmly believe that sustainable economic growth cannot be achieved without a stable macroeconomic framework. Achieving and maintaining price stability is considered one of the basic aims of economic policy. We plan to keep our inflation target at about 3 percent in the future, as speedier and sustainable growth is now a priority. There are also reliable indications that real growth in 1996 could be 7 percent, and growth rates of 5–7 percent could be achieved over the medium term. We plan to pursue a fiscal deficit of no more than 3 percent as the long-term goal, without financing it through monetization. Public debt, now at about 45 percent of GDP, should not surpass 50 percent. The main objective for growth is to lower the overall fiscal burden from the current more than 53 percent to about 40 percent.

Needless to say, utopia has not been achieved yet, thus much work remains to be done within the Croatian economy. There are at least four areas of major importance where substantial progress could be expected.

First, speedier restructuring and privatization of commercial banks and enterprises is a must. The main problem of the financial system as a whole since the introduction of the stabilization program has been high real interest rates and a large interest rate spread. Interest rate spreads are primarily affected by domestic structural factors such as the high portion of (inherited) illiquid or dud assets; segmented and oligopolistic markets of the banking industry (which is reflected in high differences in interest rates among various deposit money banks); and inadequate financial discipline, causing high risk premiums (i.e., high total interest charged). Low labor productivity of our banks (measured by assets per employee) also contributes significantly to the above tendencies. A high number of banks that operate domestically—some 60 of them—have not significantly increased competition in this industry. By mid-1996, as the bank rehabilitation process has gained ground, interest rates have started to decrease. Money market rates have fallen from 30 percent to single-digit numbers. Lending rates of commercial banks follow that trend, though at a much slower pace.

Second, domestic savings must increase for medium-term growth to be sustainable. The following are some of the most important measures to be carried out in order to increase savings in Croatia: strengthening financial discipline and stability of the financial system; reforming the pension system as a medium-term measure; enhancing fiscal discipline, i.e., increased government savings and credibility of economic and all other policies; and improving the trust not only in the banking system, but in the country in general. Decreasing fiscal pressure is essential. Within the area of pension system reform, we expect significant cooperation with the World Bank, as mentioned already.

Third, it is of key significance to emphasize the medium term while planning Croatian economic and financial policies. We should de-emphasize the short-term (monthly or even daily) results and turn our attention to long-term trends. The theory and practice of central banking have been developed around the inflationary pressures arising from the conflict between the medium-term and long-term effects of monetary expansion. Expectations among the population at large regarding Croatia’s economic future are very high. In this context, we are realistic in our expectations, keeping in mind that increasing the money supply cannot produce real goods and services. In economics one does not always get what one wants. Credibility must be earned day by day, but can be lost in a moment. For a central bank with the power of producing money, this is an important concept to keep in mind.

Fourth, Croatia is a small open economy, not a trend setter. The world has been developing in the direction of forming trade and currency zones. Globalization, increasing complexity of financial instruments and their rapid growth are some of the visible sides of financial markets today. Croatia has been, and will remain, a part of Europe. It is important to note that two-thirds of our merchandise exports and imports are traded with countries of the European Union. By adding the central European free trade area (CEFTA) countries, this share climbs to around 80 percent. Therefore, we must be more determined about accepting European and world standards, especially in financial operations. It is very important for us to fulfill most of the Maastricht criteria (with the exception of interest rates) for joining the European Economic and Monetary Union (EMU).

Does Croatia have a choice in its economic policies? As any other modern country, it does, and it will choose the path it wishes to follow. Surrounded by conditions of globalization we know that world markets are becoming more cautious and more transparent. Mistakes in the economic policy of a country are much more visible, causing stronger far-reaching consequences than ever before, as seen in the case of Mexico. High mobility of capital has not only enhanced the responsibilities of authorities, but also has required the implementation of sound policies. Miracles do not happen, at least not in economics, and economic success, i.e., sustainable growth, is always the result of long-term hard work. The political economic aspects of this development paradigm should not be neglected. In the long run, sound economic policies are good politics as well, especially in a nonelection year.

The famous Thomas Alva Edison once said, “There is no substitute for hard work.” Allow me to restate that and say that healthy and credible medium-term economic policies, directed towards increasing domestic savings and with a clear European vision, simply have no substitute in Croatia. If there is one, let it be said that the marginal rate of substitution of these policies is such that no rational decision maker would choose it.

Statement by the Governor of the Bank for Denmark

Poul Nielson

I have the honor of addressing this Annual Meeting on behalf of the Nordic countries: Denmark, Finland, Iceland, Norway, and Sweden.

Allow me first of all to extend a warm welcome to the newest member of the Bank, Bosnia and Herzegovina.

Over the last couple of years, we have seen both discouraging and encouraging developments in the international economic scene. Economic development has gained ground in many developing countries, thanks largely to successful stabilization and reform policies. Ultimately, economic development depends on these countries' own efforts. The countries in economic transition are going through a thorough restructuring process, and we now see economic growth picking up.

The early 1990s have seen a remarkable increase in private flows to developing countries, and private flows now far exceed official resources. Also, trade has become increasingly globalized. The Bank has to adjust to these favorable developments in its lending policies. It is encouraging that the Bank's initiatives in the transition economies have met with initial success.

However, the poor countries are falling behind and risk being marginalized. Special attention must be given to these countries. Therefore, in the following, I shall concentrate on the plight of these countries. Continued and increasing poverty in a number of developing countries is today's most challenging development problem. The international debt initiative is an encouraging development, indicating willingness in the international community to fight poverty and enhance social and economic development.

The poor countries continue to depend on external concessional finance. However, it is worrying that the international community is not even able to maintain the previous level of official development assistance (ODA). Due to fiscal constraints, many countries of the Organization for Economic Cooperation and Development (OECD) have been forced to cut down on ODA. The decline in the size of ODA as a percentage of OECD members' GNP has now fallen to only 0.27 percent in 1995, the lowest level since the United Nations adopted the target of 0.7 percent in 1970. This has created severe difficulties in securing funds not only for the UN system, but also for the concessional windows of the international financial institutions (IFIs). The Nordic countries have, on average, been able to sustain ODA at a level well above the UN target. We are deeply concerned about the present trend and hope conditions will soon be in place again for ODA levels to be restored and effectively used.

Today, private flows cannot compensate for ODA to the poor countries. Private flows are concentrated on too few countries, none of which are among the poorest. While it is important to maintain these flows, it is equally important to broaden their geographic coverage. The World Bank plays an important role in this respect, and the Nordic countries welcome further efforts by the Bank in this direction. In addition to non-debt-creating flows and ordinary private and official lending, the soft windows of the IFIs continue to be important providers of concessional resources for development. And we believe that their existence makes a great difference.

Burden-sharing mechanisms should help mobilize a high level of funding for the soft windows of the IFIs. It is, however, unfortunate when the valued principle of burden sharing leads to the opposite, due to the failure of a major donor to comply with its responsibility. This happened both in the replenishment negotiations for IDA and for other development funds. The Nordic countries were prepared to support a larger IDA-11. The burden-sharing mechanism, however, did not encourage that. Therefore, and in order to avoid difficulties in reaching adequate replenishment of IDA-12, we see a need to review the existing formula for replenishment negotiations and to find adequate ways to induce donors to solve the present financing problem.

Let me now turn to the debt initiative. The Nordic countries were among the first to draw attention to the need for a comprehensive solution to the problem of unsustainable debt. At the initiative of the Nordic countries, the so-called fifth dimension was established in the late 1980s. Concurrently, the IDA Debt Reduction Facility was established. These measures have been successful: year by year it has been possible to transfer enough net resources to most of the heavily indebted countries to cover their payment needs. But their total debt has not decreased. On the contrary, it increased from US$128 billion in 1988 to US$186 billion in 1995. Much of the resources transferred during this period were in the form of concessional multilateral loans. Also, concessional loans contribute to the debt burden. The Nordic countries particularly support the heavily indebted poor countries (HIPC) initiative, as it addresses the debt problem in a comprehensive way, covering not only bilateral but also the equally important multilateral debt.

Why should we worry about the debt overhang of poor countries as long as the financing gaps are covered by new transfers each year? In our view, the high and mounting debt of the heavily indebted poor countries is both a direct disincentive to development and a cause for uncertainty. A disincentive because potential investors get discouraged knowing that the debt will result in future increased taxation. A factor of uncertainty because the countries depend on the continuation of bilateral and multilateral transfers at very high levels.

Therefore, the Nordic countries welcome the debt initiative and wish to see the initiative implemented as a matter of urgency. We also believe that its procedures should be flexible and transparent. Flexibility, in our view, should also apply to the timetable, so that countries that have pursued successful stabilization and reform policies will be credited for these efforts.

We realize that the financing modalities, including the burden sharing between bilateral and multilateral creditors, is not yet fully in place. These modalities must now quickly be settled. The decision by the Paris Club members to provide enhanced debt reduction is important, although not as bold as we had hoped for. There is willingness among the Nordic countries to contribute to the initiative through the proposed trust fund, and we expect other donors to contribute their share. The Nordic countries have already, on a bilateral basis, provided assistance to relieve the debt of poor countries to the multilateral institutions in the amount of US$143 million during 1995 and 1996.

Allow me, in this context, to extend an invitation on behalf of the Danish government to host the founding meeting of the trust fund in Copenhagen. The early convening of a founding meeting will demonstrate a firm political determination to carry forward the initiative. The initiative could very well be seen by future generations as the decisive building block of the international debt strategy, the element that, around the turn of the century, made it possible for the poorest and most hopelessly indebted countries to exit from their debt problems.

Let me touch upon three other issues that the Nordic countries regard as important on the international agenda: the development in the transition economies, the role of the state, and good governance. We warmly welcome the attention that the World Bank and IMF have given during the last few years to the problems of the transition economies. An overwhelming majority of the transition economies in central and eastern Europe have taken impressive steps toward market economies. For example, Russia has now made considerable progress in bringing down inflation within the framework of the stabilization programs agreed with the IMF. In parallel with this achievement, however, many problems remain and create a truly challenging task for the World Bank in its support for the transition economies. Therefore, work must continue to assist these economies in their efforts to reform and restructure. The International Finance Corporation (IFC) has an important role to play here. The social effects of transition and environmental concerns should also be given high priority.

Reforms of the public sector and good governance are important prerequisites in the struggle against poverty. The public sector can—and should—facilitate development of physical and social infrastructure, especially health and education. It requires planning, financing, and monitoring capacity. At a time of increased globalization, the state should also have the capacity to address issues of common global concern such as environmental degradation, climatic change, and migration. Public sector and civil service reforms should be aimed toward these objectives.

Regarding privatization, it is, in many cases, sensible to break state-owned monopolies. The issue is not so much whether ownership is private or public. The issue is to enhance, where possible, competition on market terms and, at the same time, minimize the drain on public resources due to mismanagement and corruption.

Good governance plays an important role in economic development, and we welcome increased priority in the Bank to this issue. The public sector must be credible, transparent, and accountable. There is a need for improving good governance through enhancing the capacity and institutional competence of the public sector. By bringing resources and authority closer to those involved, decentralization of government would make it easier for the priorities of the people to be reflected in decision making.

Finally, I would like to mention that the Nordic experience has shown that decentralization can consolidate democracy and contribute to improved service delivery and increased accountability in the use of public funds. The Nordic experience is not unique. Well-implemented public sector reforms, including decentralization, have facilitated economic and social development in Africa, Latin America, and Asia. The Nordic countries wish to encourage the Bank and member countries to give priority to such governance and reform issues.

Statement by the Governor of the Bank for Fiji

Berenado Vunibobo

It is an honor to attend the Fifty-First Joint Annual Meetings of the International Monetary Fund and the World Bank Group. I welcome Bosnia and Herzegovina to the membership of the Bretton Woods institutions. I also join fellow Governors in warmly congratulating Mr. Camdessus on his third term as Managing Director of the Fund.

There is a general air of optimism on the immediate global economic outlook. Many industrial countries appear to have quickly stabilized the temporary economic slowdown in 1995. I am particularly encouraged by the economic recovery in Japan and Germany. On the other hand, the developing countries have put the contagion effects of the Mexican crisis firmly behind them and have continued to perform well as a group.

I believe that the stable price environment offers us an excellent opportunity to establish a higher sustainable growth path. We should take full advantage of this rare opportunity and quickly sever the shackles that are holding us back. In particular, we must renew our efforts on fiscal consolidation to give us the necessary elbow room to persevere with the fight against inflation and, at the same time, keep interest rates down. This will help us maintain stability on the exchange rate market, providing further impetus to global trade and financial flows. Ultimately, this economic stability will create the springboard for better growth prospects among member countries, particularly the poorest among us.

Having said that, I note that, while developing countries as a group continue to perform strongly, the pattern of growth has not changed at all. The dynamic economies of southeast Asia continue to forge ahead, although they have to develop contingencies against possible overheating. The slowdown in the Latin American countries was to be expected in the aftermath of the Mexican crisis and some economies are now back on track. However, while there has been significant improvement in the economic performance of African countries, the region still lags behind. In my part of the world, the Pacific island nations have not performed up to potential. In my view, this regional growth disparity must be brought to the top of the agenda of the multilateral institutions including the Fund and the Bank. The pursuit of a broader-based growth among the developing countries requires a multipronged approach on many fronts, cutting across the areas of specialization of the network of multilateral institutions. I would like to see the multilateral institutions, particularly the Bank and the Fund, adopt this challenge as a collective mission through a global partnership approach.

Let me turn to the issue of globalization. The world markets are being unified through technological advancement and innovation. Significant progress has been made in trade liberalization across the globe. It is encouraging to see many countries adopt Article VIII of the Fund. World trade has increased in leaps and bounds funded by more dynamic capital flows. The World Trade Organization is now firmly in place.

What does this globalization imply for small member countries of the Bretton Woods institutions like Fiji? We are fully aware that we are a part of the global family, and we accept that there is really no other viable alternative but for us to find our niche in the world marketplace. We also realize that the key factor to successful integration is competitiveness. Herein, I think, is where, for reasons mainly beyond our control, we are most vulnerable. The biggest constraints that we face in the South Pacific islands are our isolation from major markets and our small resource endowments. These factors effectively inflate the costs of imported raw materials and the landed costs of our exports. At a time when we are still trying to search for solutions, our preferential trade agreements are being dismantled. To make matters worse, our scarce human resources, particularly those with special skills, continue to be attracted to more affluent industrial countries. We, therefore, call for bilateral and multilateral assistance in the following areas to help us in this transition period and allow us to effectively compete:

- First, the development of our human resources through training and technical support;
- Second, the strengthening of our institutions, procedures, and systems through technical assistance and advice;
- Third, the development of our physical and social infrastructure;
- Fourth, assistance in establishing new markets for our exports;
- Fifth, the continuation of existing trade agreements;
- Finally, the provision of concessionary financial flows.

The age of high technology and sophistication has also allowed a high degree of international financial intermediation. This issue of resource transfer is critical for the continuing growth of developing countries. Most of our Asian neighbors have been successful in attracting private equity capital and portfolio investment. Unfortunately, we in the Pacific islands have not been as successful, but this is not entirely because of the lack of our economic efforts. For instance, in the case of Fiji, the Executive Board of the Fund has acknowledged that we have been successful in securing economic stability in the last two years. Economic growth in Fiji has averaged 3 percent in the 1990s, inflation is moderate at 3 percent, the current account is expected to be in surplus in 1996, and external debt servicing is less than 5 percent of exports of goods and services. In addition, we have recently established the Capital Market Development Authority to coordinate the development and deepening of our capital markets to assist us to mobilize savings and to improve the efficiency of intermediation. However, because of our size and location, it is unlikely that we can compete for private capital flows in a big way. Like many developing countries, we would rely mostly on official capital flows. At the same time, the needs of other developing countries, particularly the transition economies, are significantly larger than ours. I therefore fully share the concern of fellow Governors that the expected financial requirements of members may impose severe strains on the future resources of the Fund and the Bank.

I am therefore happy to note the progress on the Eleventh General Review of Quotas. Likewise, I also note the somewhat faster progress toward doubling the borrowed resources currently available to the IMF under the General Arrangements to Borrow (GAB). I fully agree that the quota and the GAB are not substitutes. I would like to see the Fund remain as a quota-driven institution. The GAB can play a supporting role in helping out with international emergencies supplemented by other emergency funding mechanisms. The existing formula for the quota increase appears broadly appropriate. I would go along with an equiproportionate increase in quotas and a relatively smaller special increase to address the quotas of member countries that are seriously out of line. I also support the agreement on the Managing Director's proposal for an SDR allocation to resolve the equity issue. I, therefore, urge the Executive Board of the Fund to quickly finalize its deliberation and call on all member countries to accelerate the political process needed for the quick ratification of the eleventh quota increase and the SDR allocation.

On the Bank side, I warmly welcome the eleventh replenishment of the International Development Association (IDA), which will allow disbursements of $22 billion over the next three years. I join the call for the richer members of the Bank to fully subscribe to their IDA obligations. In contrast to official bilateral debt, multilateral debt has been fairly stable at about 30 percent of total debt. In an environment where private capital flows are gaining dominance, it is indeed heartening that the Bank is offering a currency choice for its new and existing loans. I appreciate this initiative because it offers an alternative to the otherwise expensive currencies in which the multicurrency debt is usually recalled. Furthermore, it will reduce the uncertainty and allow us to better project our debt-servicing and financial flows.

I feel that one of the major challenges that face the Fund and the Bank today is to ensure that the allocation of funds and the modalities of their facilities are constantly aligned to the needs of member countries. This would go a long way to lifting the effectiveness of the twin institutions and improving the economic well-being of its members. The special needs of member countries like those in transition and the heavily indebted call for bold and innovative approaches. I am therefore pleased to support the continuation of the Enhanced Structural Adjustment Facility (ESAF) as a permanent feature of the Fund's facilities. In my view, the temporary and monetary features of the Fund's mandate are not being compromised by ESAF. The Fund's role is constantly being frustrated by the lack of adjustment and reforms that are prerequisites to the achievement of the Fund's wider and, I believe, more strategic objectives of growth and prosperity. I therefore request the Bank and the Fund to work very closely together to address the special structural needs of member countries.

The South Pacific island nations have their own special needs. In particular, our countries are regularly devastated by hurricanes, which imposes severe strain on our balance of payments position and considerable cost on infrastructural rehabilitation. While we are grateful for bilateral assistance that we receive at such times, our needs could be further addressed by a fast disbursing emergency facility from the Bank and the Fund. Technical assistance must take up a major portion of the Bank and the Fund's assistance to the region. I would like to take this opportunity to express Fiji's satisfaction at the attention the Bretton Woods institutions have placed on the Pacific region. I welcome the setting up of the new division in the World Bank to address the needs of small South Pacific islands.

In Fiji, we are also fortunate that the Pacific Financial Technical Assistance Centre (PFTAC) is located in Suva. I commend the continued support for the Centre, which has been granted a second three-year phase, and gratefully acknowledge the contributions of the donors. We have found that PFTAC provides the necessary and much-needed technical advice and training in public expenditure management, tax and customs reform, banking supervision, and statistics on national accounts and balance of payments. The PFTAC is helping small island nations in the region undertake much-needed reforms and conform to the new reporting requirements for data provision to the Fund. I would also like to specifically thank the Bank and the Fund for their help and support in the rehabilitation of the National Bank of Fiji. I conclude by wishing the Bank and the Fund well in their next year of operation.

STATEMENT BY THE GOVERNOR OF THE FUND AND THE BANK FOR FRANCE

Jean Arthuis

Allow me first of all to warmly congratulate the Managing Director of the International Monetary Fund on the eve of his unprecedented third term. The ardor and talent of Michel Camdessus have earned him the admiration of all and the gratitude of many, and I am confident that he will continue to face up to the heavy responsibilities of his task with rigor and caring.

I have come away from the preliminary meetings of the last few days and from yesterday's speech by the Managing Director of the IMF with a feeling of confidence and even optimism on the prospects of our economies. Already, a great number of developing countries have steady growth with moderate inflation. I welcome the dynamism of the developing countries, many of which are experiencing a positive progression of their per capita GDP. The success of many African countries, which are now achieving growth superior to 5 percent per annum, bears witness to the fact that there were solid grounds for undertaking the efforts of the last few years.

We all know that these good prospects will depend on being able to maintain what has been achieved: inflation kept in check in the industrialized countries and in a growing number of developing ones; the reduction of fiscal deficits well under way all over the world, even if some dangerous situations persist; and the reduction of external imbalances.

However, growth in France and in continental Europe was fairly disappointing at the end of 1995 and in the first half of this year. Nevertheless, we now have good reason to believe that the conditions for a recovery are in place; I note that the IMF forecast for France is practically identical to our hypothesis of 2.3 percent growth for 1997. The absence of inflationary risk; the high profit margins of private enterprise, and thus their capacity to finance new investments; the low interest rates following the sharp reduction observed over the last 12 months; and the relative stability of the exchange markets after the turbulence of 1995–-all these elements create conditions favoring the return of growth to our countries. I would add that progress achieved in fiscal consolidation has made possible a significant reduction in long-term interest rates, which testifies to the fact that the credibility of our fiscal policy has been restored. The government of Alain Juppé had promised that we would reduce the deficit from 6 percent to 5 percent of the GDP in 1995, and we did it. We promised that we would reduce this deficit to 4 percent in 1996; we are doing it, and I can guarantee that this target will be met. We have committed ourselves to reduce the deficit to 3 percent in 1997. We will keep this commitment as we have the previous ones.

What then, in this favorable context, are our priority tasks? I subscribe unconditionally to the recommendations in the declaration of the Interim Committee, but I would like to emphasize two goals. First, the necessity to reach a new stage of fiscal consolidation. Certainly, we must pursue the reduction of the fiscal deficit now in progress, but the criterion of 3 percent that France, like several other European countries, has vowed to attain in 1997, is only a step. The medium-term goal, which we must now envisage, is to reestablish the balance in public finance. The high level of public debt in most of the industrialized countries, the aging populations, the necessity to lower taxes—all these considerations create the need for more lasting fiscal consolidation; that is, a return to balanced budgets. This certainly does not preclude taking the economic cycle into account by tolerating some reasonable margins of fluctuation. Such is the sense of the “Stability Pact” discussions on fiscal policy within a single currency now under way in Europe. Control of public expenditure will require great effort, but I am convinced that it will enhance the well-being of our people.

The other goal that I want to emphasize is the necessity to promote international financial stability. This has several aspects. First, exchange rate stability. We have made progress over the last 12 months. The orderly reversal that we all hoped for is under way, and the improved economic environment that we all have observed can in part be attributed to it. The coming months will be decisive ones for Europe. The deadline for the single currency is nearing. We already fulfill many of the conditions, notably the most important one: most of our countries have achieved convergence at a very low level of inflation. We can say that price stability in Europe is presently assured. We need to undertake further fiscal efforts in continuity with what we have already accomplished. I have previously stated my determination and my confidence. I am convinced that France and several other European countries will be ready in time and under the agreed criteria to participate in the single currency from January 1, 1999 on. This will result in greater monetary stability in Europe, and we will, of course, have to cooperate with our other partners in order to strengthen global stability.

The second aspect relates to the security of financial markets. Several recent crises in new financial products, as well as in traditional banking systems, in the industrialized countries and in the emerging countries or those in transition, have demonstrated the urgency of this question. The more our economies integrate, and the more the capital markets globalize, the greater the need for security in financial markets becomes. This can no longer be treated separately, country by country. Several initiatives have been, or are on the point of being, launched as a result of the impetus of the Lyons Summit. Many organizations are involved: the Basle Committee, of course, the International Organization of Securities Commissions (IOSCO), and the International Association of Insurance Supervisors (IAIS). I consider that the IMF itself will be called upon to play an important role in these efforts.

What are the priorities? As for myself, I see four. First of all, we must enhance cooperation among prudential authorities in order to adapt their supervision to the reality of internationally active financial institutions and conglomerates, whose businesses span national borders and the traditional separations between financial services. Second, we must improve transparency in financial markets. The better the investor information, the more reliable their decisions or at least the decisions of those who wish to be prudent. The third question concerns the financial stability of emerging economies, which has particular importance for the IMF, the only institution with a worldwide mandate. It is indispensable for these countries to create prudential standards that are sufficiently dependable and respected to inspire investor confidence. This task cannot be limited to transposing to emerging economies the standards developed for international banks in the industrialized world. The emerging economies present different, often higher, risks that call for tailored responses. Finally, we must reflect on the consequences of the rise of electronic money. It is not certain that our as yet insufficient arrangements to prevent financial fraud and to fight money laundering can accommodate the rapid appearance of these new technologies.

The last aspect that I would like to mention is the management of economic crises and the prevention of their spread. We all know that a priority effort must be directed at preventing crises through strengthening the surveillance of authorities, mostly the IMF, and of the markets themselves. Whence the importance of the creation of the standard for data dissemination and, I am delighted at the success with which this initiative has met. Men are fallible and markets will always be unpredictable, so, even with strengthened surveillance, we cannot hope to protect ourselves from future crises. It is therefore essential that we have at our disposal the resources to face up to them. I am happy that we have been able to agree to double the General Arrangements to Borrow (GAB). The first-time participation of a number of emerging countries is also a sign of the times and accurately reflects the new economic and financial world. As Mr. Maystadt, the President of the Interim Committee, reminded us, this exceptional financing must be rapidly coupled with a strengthening of the normal financing of the IMF, a quota increase.

In conclusion, I would like to return to the development question, which is once again at the center of our work, or rather to take up an expression used at the Lyons Summit and used yesterday by Mr. Camdessus and Mr. Wolfensohn, that of a new partnership for development. When

President Jacques Chirac took the initiative to invite for the first time last June the President of the World Bank and the Managing Director of the International Monetary Fund, together with the United Nations Secretary General and the Director of the World Trade Organization, to a work session with the heads of state and government, he intended to deliver a double message to his colleagues: a message of openness and of attentiveness. We all have a voice in this worldwide enterprise, and we will only prosper together. It was also a message of confidence and support. The multilateral institutions, and in the economic sphere the International Monetary Fund and the World Bank, can best channel our cooperation to build this common prosperity. It is therefore essential that the richest countries uphold the example of unfaltering support and scrupulously honor their commitments.

Support, of course, can never be unconditional and each partner has its responsibility. The developing countries owe it to themselves to implement good policies, allying economic rigor and social justice. The international institutions must prove their capacity to change, to adapt to the new demands of their members; and the rich countries must remain faithful to their obligation to stand by them.

It is in this spirit that we have worked together during this assembly. I want to acknowledge again the agreement that has permitted us, through common effort, to guarantee the permanent financing of the Enhanced Structural Adjustment Facility and therefore the future support of the IMF for the adjustment efforts of the poorest countries.

We are left with some issues to settle. It will be necessary to make decisions that cannot be deferred for too long. I have confidence that the same spirit of consensus that prevailed during these meetings will allow us to find a good and solid financial agreement at future ones.

This agreement has made possible the participation of the IMF in the new debt initiative. It is remarkable that, within three months of the impetus provided by the Lyons Summit, all the partners of the international community have been able to come to an agreement. The creditors of the Paris Club are committed to a new effort to increase debt relief from 67 percent to 80 percent for the heavily indebted and poorest countries. I would like to renew my thanks to Mr. Camdessus and Mr. Wolfensohn for the exemplary spirit of cooperation that inspired their work and made this agreement possible. I hope they will participate in the implementation of this initiative to secure the flexibility and pragmatism necessary to its success. To my mind, this agreement is a major advance that will permit us to offer the heavily indebted and poorest countries the prospect of emerging from debt, and thus the hope of regaining a growth rate that can raise the living standards of their people. Naturally, they must also do their part in maintaining tight fiscal policies, openness to trade, and monetary stability, without which no progress is possible.

STATEMENT BY THE GOVERNOR OF THE FUND FOR GABON

Marcel Doupamby Matoka

The Global Economic Outlook

As we approach the dawn of a new millennium, global developments give us cause for renewed optimism. In the last ten years, the advance of global economic integration has accelerated at a dramatic rate, in step with an expansion in world trade and flows of private capital to a number of developing countries. A broadly favorable international economic environment is thus envisaged for developing countries in the medium term, fueled jointly by a stable industrial country growth, low inflation, and low world real interest rates. Developing countries as a whole are thus expected to grow by over 5 percent a year on average over the next decade.

Huge disparities remain, however, among developing countries, and this gives us cause for serious concern. The pace of integration into the global economy has been very uneven among developing countries. The ratio of trade to GDP has fallen in almost half of all developing countries in the last ten years, according to World Bank reports. Moreover, two-thirds of all foreign direct investment flows between 1990 and 1993 were concentrated in just eight developing countries, while half of all developing countries, including most of sub-Saharan Africa, received little or no inflows. This in spite of enormous investment opportunities resulting from the emergence of a more liberal macroeconomic environment.

Sub-Saharan Africa enjoyed growth of more than 3 percent in 1995, a marked improvement over the 1991–94 average of 0.7 percent a year. This growth was partly due to improved commodity prices, but also to the effect of economic reforms undertaken by a growing number of countries in the region. However, regional averages mask significant variations in growth rates, and, while a small number of countries have continued to exhibit strong performance, many others continue to experience contraction. Only very modest increases in per capita incomes are envisaged in sub-Saharan Africa for the foreseeable future, unless the efforts of reforming countries in the region are rewarded with adequate flows of capital, both private and official.

Resource Flows

Official Development Assistance (ODA)

Within this context, the poor prospects for aid flows to sub-Saharan Africa are particularly worrisome. As is well known, for many countries in the region, official development assistance (ODA) constitutes virtually the only source of external financing and often represents a very significant part of their revenues. Yet in recent years, ODA has been on a persistently downward trend, falling from 0.35 percent of donors' GDP in 1982/83 to just 0.29 percent in 1994, the lowest level in over two decades, according to World Bank estimates. Almost all donor countries have reduced their ODA contributions in recent years. This trend is expected to continue, and the poorest countries, most of which are in Africa, may not be able to count on adequate flows of ODA in the future. With limited access to private capital due to creditworthiness constraints, and declining levels of ODA, sub-Saharan African countries risk further marginalization in spite of significant progress with policy reform. The World Bank Group should assist African countries' efforts to promote private sector development and to make them more attractive to foreign investment. In particular, potential investors must be made aware of the sizable gains made by African countries in reforming their economies.

IDA-11

In this environment of limited flows of private capital and ODA, the Bretton Woods institutions will have an even greater role to play in supporting the development efforts of sub-Saharan African countries. The recently concluded eleventh replenishment of the International Development Association (IDA), while far short of estimated lending requirements and well below previous levels, was arrived at only after the exceptional efforts of some IDA donors. Despite tight budget constraints and competing demands, many donors pledged additional amounts to make up for the significant shortfall in IDA resources. We are grateful for their support.

The longer-term outlook for IDA is of serious concern to us. Donor funding under IDA-11 is lower in real terms than in IDA-9 or IDA-10. More important, it is significantly less than what IDA recipients are likely to require in future years, particularly as the number of claimants is anticipated to increase, and as lending resumes to currently inactive borrowers. This will call for substantially higher levels of donor contributions for the year 2000 and beyond, if planned lending programs are to be completed successfully.

The concessional financing needs of sub-Saharan African countries are certain to remain substantial in the short term, as they pursue vigorously their economic reforms with a view to achieving sustainable development. To this end, we would like to reiterate the importance for our countries to receive an adequate proportion of IDA funding, and we trust that our region will receive about 50 percent of total IDA-11 resources, as agreed under previous replenishments.

Enhanced Structural Adjustment Facility (ESAF)

We strongly support a self-sustained ESAF as a means of solidifying the work of the Fund in low-income countries. The success of ESAF-supported programs in the past few years provides firm evidence that the best approach to dealing with the balance of payments problem in low-income countries is to encourage adjustment, structural reform, and increased investment in these countries in the context of a long-term strategy supported by external financing that does not aggravate an already heavy debt burden. We must build on this success with an ESAF that is adequately funded in order to respond effectively to the needs of the eligible members. In this connection, we are pleased with the consensus on the continuation of ESAF operations with its existing features. We, therefore, appeal to the donor community for bilateral support for both the loan and subsidy elements. Such support would be a clear signal of a collective commitment to the efforts of the Fund in helping those of the membership that are most in need and are making efforts on their part to become eligible to benefit fully from the process of global economic integration.

Quotas

We believe that the size of the IMF must keep pace with growth in the world economy. While we agree that efforts to enhance borrowing arrangements under the General Arrangements to Borrow (GAB) are a prudent step in preparing for potential shocks to the international financial system, this is not a substitute for a quota increase and, therefore, we attach great importance to reaching a timely agreement under the Eleventh General Review of Quotas. Having said this, we must also emphasize the importance we attach to finding a more equitable approach to the calculation of quotas, in view of the fact that past reviews have led to successive declines in the voting strength of most developing countries, especially low-income countries, most of which are in Africa. This means that our influence in the decision-making process of the IMF continues to decline with each increase in quotas. Besides having negative implications for the maximum amount of financing that our countries can obtain from the IMF, this unfavorable trend threatens the representation of Africa in the Board of the IMF. The situation calls for an examination of the variables in the quota formulas and the possibility of including new variables. In addition, we feel it opportune for the Fund to reactivate the system of basic votes so as to compensate for the weakness in voting power of certain countries or groups of countries, particularly those representing sub-Saharan Africa in the Fund. The IMF must be prepared to consider other options, including selective intervention, in view of the very limited access of many of these countries to private capital and much more limited latitude than the rest of the Fund members to finance their payments deficits out of their own resources.

Resolving the Debt Problems of African Countries

For many years, the heavy burden of debt has stifled the growth of many African countries. There is now general agreement that a large number of these heavily indebted poor countries (HIPCs) have debt burdens that are likely to remain above sustainable levels over the medium term, even with strong policy performance and full use of existing debt-relief mechanisms.

The Development Committee, at its spring meeting, endorsed a joint Bank and IMF initiative on a framework for action to resolve the debt problems of the heavily indebted poor countries. We would like to express our appreciation for the joint efforts of Messrs. Camdessus and Wolfensohn and their colleagues in responding to the Development Committee's request to develop an action program by the time of the 1996 Annual Meetings. It is important that debt relief be comprehensive, provided in a flexible and coordinated manner, and include broad burden sharing and equitable participation by all creditors.

The success of the HIPC debt initiative will depend to a very large extent on the concerted efforts of all the principal creditors involved. Both bilateral donors and the multilateral institutions, as well as other creditors, must be committed to providing significant levels of funding of an additional nature in support of the initiative. Paris Club creditors will have a particularly prominent role to play in this endeavor, and we trust that we can count on them to make the extra effort required to make this initiative successful by significantly exceeding the Naples terms. Ultimately, creditor and debtor countries alike stand to benefit from an early and successful resolution of this protracted debt crisis. We are encouraged by the strong support shown for this initiative by the members of the Group of Seven meeting in Lyons last June.

The Bank has played a lead role in this initiative, and has shown a willingness to make a sizable contribution to the proposed trust fund. We trust that the IMF will also play a proactive role by contributing some of its resources to the proposed fund. We firmly believe that the sale of a portion of its gold reserves would be one way in which the IMF could make a sizable contribution to the initiative.

We believe that a larger number of countries than currently anticipated will need to be included in the initiative, and we would caution against a rigid adherence to the numerical classifications by which debt sustainability is being determined. The eligibility criteria used in the proposal to determine access to the Fund may have the effect of excluding deserving countries. We also believe that the export growth assumptions inherent in the proposal are overly optimistic, and that more realistic projections should be incorporated in the calculations. A flexible, case-by-case approach must be followed in determining eligibility and, most important, a shorter, more realistic time frame must be used to establish a country's track record of reform so as to enable eligible countries to begin to benefit from the initiative as soon as possible and to encourage them to maintain the momentum of reform.

Capacity Building in Africa

A key prerequisite for sustainable development, especially in sub-Saharan Africa, is adequate mobilization of resources for the building of human and institutional capacity. Without sufficient capacity to ensure the effective implementation of projects in Africa, our countries are unable to implement them with commitment and effectiveness. This fact is increasingly being recognized by our development partners and it is gratifying to note that, more and more, capacity-building concerns are being incorporated into programs in the region, while the emphasis on traditional technical assistance is diminishing.

In our discussions with Mr. Wolfensohn during the last Annual Meetings, we, the African Governors, expressed concern about the capacity problem in Africa and urged the Bank to address it more decisively. Mr. Wolfensohn has been an active proponent of capacity building and enthusiastically supported the African Governors' efforts to improve the Bank's approach to capacity building in Africa. Since then, on the recommendation of the Governors, the African Executive Directors, with the assistance of the Bank's Africa Region, have organized subregional and national workshops in Africa to identify the key capacity needs and possible solutions, and to build consensus on the key issues. National capacity assessments in some countries to identify strategic capacity gaps, and an assessment to enhance the impact of Bank policies, instruments, and operational practices on capacity building and capacity utilization in Africa, have also been completed. A working party has also been established to assess the impact of Bank-sponsored projects on capacity building into Bank operations.

Various constructive discussions have led to the preparation of an action program for capacity building in Africa. We have thus agreed to launch a broad initiative in support of partnership and capacity building. This initiative could be based on the creation of a trust fund, to be funded by resources from official and private sources. We look forward to seeing the impact of these changes as soon as possible in the Bank's operations in our countries.

Africa and International Trade

In the aftermath of the Uruguay Round, the volume of trade has continued to grow at a brisk pace, tariffs have been reduced in many countries, and the costs of trade, especially communications costs, have fallen. Many African countries have lagged behind, however, in opening to world trade, fearful of the formidable adjustment costs and the uncertain benefits associated with trade reform. We are concerned that the world markets do not offer a level playing field, thus limiting the benefits that could potentially accrue to African countries from more liberal trade policies. In particular, antidumping actions are on the increase, and the agriculture of developed countries remains highly protected and subsidized. Furthermore, the Multifibre Arrangement, to be phased out by 2005, continues to distort global trade, acting as a huge compulsory export tax on developing country exports of textiles and clothing. In spite of the reduction of tariffs, we have observed an increase in nontariff barriers, coupled with high transportation costs, which generally put many sub-Saharan African countries at an economic disadvantage. Moreover, the fact that the reduction of customs tariffs is lower for manufactured products than for raw materials tends to be a disincentive for the local processing of our products.

For sub-Saharan Africa, losses are estimated at up to 0.5 percent of GDP, or some $1.3 billion, while gains are mostly predicted for all other developing country regions. African exports face reduced preferential trade margins, which will lead to export losses for almost all African countries. The price effects of the Round will increase Africa's food import bill significantly, and its agricultural trade balance is projected to deteriorate. The final act of the Round, in recognition of these potential costs, included various provisions for differential obligations, technical assistance, other financial support, and improved tariff preferences as compensation for these countries. These commitments should now be honored. The World Trade Organization (WTO) and especially the Committee on Trade and Development must play a major role in monitoring the impact of the Round on the poorest countries, ensuring compensation commitments are honored, and providing technical and capacity-building assistance to affected countries. The United Nations Conference on Trade and Development (UNCTAD), in close cooperation with the African regional and subregional institutions, could act as a forum for analyzing the relationship between trade and development, coordinating changes in preference schemes, and setting priorities for technical assistance, especially with regard to the new issues currently under negotiation, such as the multilateral investment agreement, competition, and trade and the environment.

Regional Cooperation and Economic Integration

We strongly believe that economic cooperation and regional integration, as provided for in the Abuja Treaty, are a means of promoting sustainable development in Africa, as in other regions of the world; strengthening regional peace and political stability; guaranteeing our participation in international trade; and halting the growing marginalization of our economies. This is why, by combining our limited resources, we are striving to harmonize and to coordinate our countries' macroeconomic policies, to develop cross-border trade and investment, and to improve the international competitiveness of our productive sectors, in particular through the progressive elimination of obstacles to the free movement of labor, capital, goods and services, and through the improvement of the political and social environment.

This strategy merits support by the international community in the context of the various initiatives already taken by our governments. To this end, the World Bank and the International Monetary Fund should develop the appropriate resources and instruments to enable them to contribute more actively to the attainment of these objectives through constant and enhanced support of our regional and subregional organizations for economic cooperation and integration.

Conclusion

The coming years will be crucial for sub-Saharan African countries. If their reform efforts, both economic and political, are supported by adequate donor funding and increased flows of private capital, together with debt reduction and a hospitable external environment, then they can look forward to improved growth prospects. If, however, ODA flows continue to dwindle, private capital flows continue to bypass the region, and the donor community remains tentative about debt reduction, then Africa may be prevented from sharing in the global economic expansion and integration that other regions are currently enjoying. While much will depend on our own countries' commitment to reform, Africa's development must also be a shared responsibility, as the continent's performance will have implications for the world at large. In an increasingly integrated world, the decisions that we all make today will determine the kind of world in which we will live tomorrow.

STATEMENT BY THE GOVERNOR OF THE FUND FOR GERMANY

Hans Tietmeyer

On behalf of Germany, I would first of all like to welcome the new members of the IMF and the World Bank, Bosnia and Herzegovina and Brunei Darussalam.

Trends in the world economy have, on the whole, been encouraging of late. There is steady, and actually quite often buoyant, growth in many regions at present. World trade continues to expand sharply, and, in a large number of countries, inflation appears now to be under better control than it has been for many years.

Even so, both of the Bretton Woods institutions are faced with new challenges at the start of their second half-century of existence. Above all, tal, goods and services, and through the improvement of the political and social environment.

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Even so, both of the Bretton Woods institutions are faced with new challenges at the start of their second half-century of existence. Above all, the integrative forces in the world economy—"globalization," for short—are having an ever-stronger impact, not only on the institutions themselves but also on their member countries. All around the globe there are impressive examples of how economic liberalization and integration in the world economy are opening up stronger growth and welfare prospects than any other strategy. That is also true of financial markets. It will therefore be important for the Bretton Woods institutions to assist their members in accepting the new economic environment and its challenges and in turning them to their own advantage.

Serious structural weaknesses continue to exist in many industrial countries. It is surely no coincidence that those countries that responded to the challenges presented by the global market at an earlier date and with fewer reservations are now enjoying more favorable conditions for growth and employment. In its most recent *World Economic Outlook (WEO),* the IMF rightly noted that, in the vast majority of cases, unemployment in continental Europe is of a structural origin; in other words, it cannot be tackled by means of expansionary financial policies. What is needed are more flexibility and deregulation of the labor and product markets and the rectification of undesirable developments in the welfare state.

At the same time, it is also important to continue consolidating budget deficits and reducing government debt in a vigorous and sustained manner, so as to foster the confidence of investors and consumers, and to lower interest rates (which, rightly so, is also a key subject of the *WEO*). Monetary policy cannot make up for shortcomings in structural adjustment. Nor can it play a direct role in stimulating economic activity. Rather, monetary policy must be committed to the goal of stability. What it can do is stabilize expectations and generate confidence. That is what offers the best outlook for long-term growth—an experience emphasized also by the Madrid Declaration. In this context, we notice with some concern the recent revival of the view that economies might be better off with a certain percentage of inflation than with price stability.

The differences in economic activity reflecting the degree of economic opening and liberalization are often even more striking in the developing countries and countries in transition than they are in the industrial world. In many regions, especially in the emerging markets, growth is meanwhile noticeably higher than in the industrial countries. There are even signs of overheating in the Asian region. Also, in the majority of countries in transition, the economy is reacting more and more to market forces and its increasing integration into the world economy. Many countries have realized that economic liberalization releases more productive energy than any conceivable amount of bilateral or multilateral aid.

By contrast, in many other developing countries and countries in transition, prevailing structural obstacles have left the growth potential underutilized. In most of those countries, large public sector shares in GNP and the scale of government intervention continue to restrain the development of the private sector. Bearing this in mind, we welcome the World Bank's intention of making the role of the public sector the key topic of next year's *World Development Report.* Reforms such as the creation of free markets or the liberalization of foreign trade and capital movements often founder, not because of any alleged lack of funds but because of a lack of political will or attempts to maintain "control" over the development of an economy. This prevents a country's production potential from being put to full use.

The progressive liberalization and globalization of the financial markets also pose challenges to all countries. A number of countries have also been forced to learn in the recent past that international capital markets impose sanctions on inappropriate policies. Easy access to foreign resources, for instance, must not tempt capital-importing countries into an undue expansion of domestic demand. High current account deficits—especially if they are financed at short term and are accompanied by a sharp expansion of the domestic money stock—must be taken as a warning signal.

The unparalleled expansion and integration of the international financial markets also require more effective supervision of the financial institutions in order to contain the risk of payment difficulties, domino effects, or other adverse implications for the real economy. This is, above all, a challenge for the authorities in the emerging markets, while in a large number of countries in transition, banks still have to cope with the inherited problems posed by the former economic system, namely, large-scale nonperforming loans.

The overall economic situation in Germany, too, has shown a positive trend over the past few months. Now that last year's excessive appreciation of the deutsche mark has largely been reversed, and given the present more moderate trend in wages and low interest rates, the government expects a growth rate above 1 percent this year, which could increase to 2½ percent in 1997. Progress in budgetary consolidation and in structural reforms has also improved the medium-term outlook for growth. Overall, however, the improvement in the situation in itself is not sufficient to guarantee high, sustained, and noninflationary economic growth and to solve our most pressing problem—high unemployment.

With respect to the budget, Germany must and will continue its consolidation policies. For next year, the government has the firm intention to reduce public expenditures again tangibly, which will provide the basis for a reduction of the public deficit to less than 3 percent of GDP so that Germany can fulfill the Maastricht criteria. Consolidation focusing on the expenditure side is a precondition for continued low interest rates and provides additional scope for investment and consumption and, consequently, for higher growth rates.

Germany has also recently introduced reform measures to combat the high level of unemployment. These aim to increase flexibility in the labor market and in wage formation, to reduce high nonwage labor costs, and to cut subsidies that inhibit private initiative. As elsewhere, loosening traditional structures is very difficult in Germany. However, there is no alternative to this approach. Any attempt to avoid or postpone the necessary adjustment by short-term stimulation of economic activity would only increase the price of adjustment to be paid later on.

German monetary policy has also played its part in creating the necessary conditions for stable growth and successful structural reforms. The inflation rate and official interest rates in Germany are now at an all-time low. Long-term interest rates have also come down. These successes bear out the appropriateness of the monetary policy strategy that is being pursued. Obviously, our policy of targeting the expansion of the money stock has proved its worth.

The IMF and the World Bank have reacted promptly and resolutely to the new global economic challenges. We welcome, above all, the IMF's decision to intensify its surveillance over its member countries' economic policies with shorter time lags so that critical developments can be identified at an early stage. That is also the purpose of the newly developed standards for the statistical data that member countries are to make available to the markets. Germany will adopt these standards; however, the flexibility announced by the IMF for their implementation is necessary to strike a proper balance between timeliness and reliability of the data to be supplied.

On the other hand, we are viewing with mixed feelings the rise in the IMF's lending to a record level. First, we note that the IMF has been in a position to support some of its members in a particularly difficult situation in an unconventional manner by providing large amounts of financial assistance. At the same time, however, we have two concerns:

- First, the IMF must not become a lender of last resort for certain groups of creditors who have entered into excessively large exposures and who, as a result, have reaped large risk premiums. Bail-out operations of this kind could undermine the discipline of the international financial markets to the detriment of global stability.
- Second, building up undue credit exposures financed by central bank resources is problematic in terms of global anti-inflation policy and might ultimately undermine the financial integrity of the IMF.

A greater appreciation of these principles, including the catalytic role of the IMF, would appear to be warranted.

Even so, Germany remains willing to cooperate in the Eleventh General Review of Quotas in a constructive manner, with a view to meeting the IMF's need for liquidity as justified by its mandate. The envisaged New Arrangements to Borrow (NAB) will provide the Fund with additional credit lines to cope with balance of payments dislocations threatening the stability of the international monetary system. Germany will make a substantial contribution to these arrangements. However, these lines of credit must not become a substitute for an appropriately sized quota increase.

In decisions on financing the IMF, the abundant supply of credit in the international markets must be taken into consideration. Countries with sound financial policies can draw there on ample liquidity at favorable conditions. Hence, there is no global need for an allocation of special drawing rights (SDRs). Nevertheless, we would support a one-off “equity allocation” on the basis of an amendment of the IMF Articles of Agreement enabling new members to participate in the SDR system. In this spirit, we welcome the recent proposals made by the Managing Director as a basis for further progress in this area.

The debt initiative in favor of a few poor countries has made decisive progress during the past months. All groups of creditors—the IMF, the World Bank, regional development banks, and bilateral creditors—must each contribute broad and equitable shares. We are pleased to note that the IMF and the World Bank have already declared their participation. Also, Paris Club creditors are prepared to contribute appropriately and to grant debt cancellation of up to 80 percent on a case-by-case basis. Germany supports these decisions fully, even though they come at a time when fiscal consolidation places heavy burdens on most of the creditor countries. However, the debt initiative must be targeted at those countries whose debt situation is unsustainable according to the joint analysis of the IMF and the World Bank and that have proved their commitment to strong adjustment. Given these criteria, only a limited number of countries facing debt problems will be eligible for the initiative.

The International Monetary Fund and the World Bank must continue to perform their tasks, under their respective mandates, in a flexible and constructive manner, while preserving their tried and tested division of labor. They must avoid “short-termism” and the search for “free-of-charge” and “free-of-pain” solutions and must deploy the available resources as effectively as possible. In those terms, both institutions have our full support. For the IMF, it will chiefly remain important to make a contribution to macroeconomic stabilization as a precondition for the successful integration of its members in the world economy. It will be the task of the World Bank to provide assistance in the necessary process of market-oriented structural adjustment—for instance, in the areas of good governance; development of human capital; poverty alleviation; privatization; and the opening up and strengthening of financial markets—thereby ensuring that developing countries benefit from globalization.

Finally, we are pleased that next year’s Annual Meetings will be held in a region in which integration in the world economy on the basis of monetary stability has been particularly successful.

STATEMENT BY THE GOVERNOR OF THE FUND FOR GREECE

Lucas D. Papademos

I am very pleased to address the Joint Annual Meetings of the International Monetary Fund and the World Bank Group. I would first like to express my warm congratulations to Michel Camdessus on his election as the Managing Director of the IMF for a third consecutive term. I would also like to join the other Governors in extending a special welcome to the delegation of Bosnia and Herzegovina, the new member of the Bretton Woods institutions.

These meetings provide a forum for discussing not only global economic developments and policy issues, but also the economic performance of individual countries. I will devote part of my statement to sharing with you the progress made in Greece toward attaining stability and sustainable growth, as well as to explaining the economic policy challenges we face on the road to European economic and monetary integration in an increasingly globalized world economy.

The consensus assessment of global economic developments is overall positive, and medium-term prospects for the world economy remain favorable. Economic growth is strengthening and is projected to accelerate further next year. Inflationary pressures continue to be subdued in industrial countries and are moderating in developing and transition economies. Considerable progress has been made with respect to exchange rate stability. World trade continues to expand at a fast pace and international financial markets have not displayed the volatility experienced in previous years. Finally, in many countries fiscal consolidation is being pursued with resolve, and structural reforms that enhance efficiency are being implemented.

Notwithstanding these positive developments, economic performance across regions and countries is uneven. On the one hand, it is very encouraging to note that developing countries on the whole continue to grow rapidly and that economic recovery is under way in transition economies. On the other hand, growth has been moderate in some industrial countries, particularly in Europe. Moreover, many economies still face problems associated with the restructuring being induced by, inter alia, technological advances and increasing globalization, as well as by historic developments, such as the continuing transition of centrally planned to market economies and the process of European economic and monetary integration.

In the European Union, the weakening of economic activity in early 1996 is expected to be reversed, because conditions favoring a recovery have improved. Nevertheless, unemployment is projected to remain high. This is partly attributed to the effects of budgetary consolidation efforts aimed at meeting the criteria for participation in the single European currency area. The unemployment problem in Europe, however, reflects primarily deep-seated structural factors, and any trade-off between fiscal retrenchment and economic activity can be expected to be temporary, because budgetary discipline will ultimately have beneficial effects on growth. Indeed, fiscal consolidation, and more generally, stabilization policies need not affect economic activity adversely even in the short run. An appropriate macroeconomic policy mix combined with structural reforms can create conditions conducive to increased investment, partly by boosting confidence and creating favorable expectations about the future course of the economy. In today's integrated financial markets, these effects can be especially strong in countries that tackle their fiscal imbalances decisively. The experience of my own country supports this view, as well as the need for further concerted and sustained efforts in order to promote structural changes that will enhance growth potential.

A key feature of the Greek economy in the last two and a half years is that substantial progress toward stabilization has been accompanied by faster economic growth. Over this period, inflation has gradually declined to single-digit levels for the first time in more than 20 years. A tight monetary policy, which has progressively relied more on the exchange rate as a nominal anchor, has succeeded in stabilizing the drachma's external value and moderating inflationary pressures. Moreover, the general government deficit has shrunk by more than 5 percentage points of GDP.

The deceleration of inflation, the consolidation of the budget deficit, and the enhanced credibility of exchange rate policy have led to substantial capital inflows and a significant drop in interest rates. These developments and improved confidence in the prospects of the economy have stimulated private investment, which, together with increased public infrastructure investment, has underpinned an acceleration of growth to an estimated 2.5 percent in 1996. Thus, disinflation and budgetary consolidation have been accompanied by an upturn in economic activity. Moreover, the significant increase in private and public investment is strengthening the foundations for sustained growth. However, in the short run, the pickup in production has not proven sufficient to prevent a rise in unemployment.

Despite the significant progress achieved in recent years, economic and monetary policy in Greece continues to be confronted with various challenges. The still-high budget deficit and public debt constrain the country's growth prospects and the effectiveness of stability-oriented monetary policy. In an environment of integrated financial markets, monetary policy faces difficulties in controlling credit expansion fueled by capital inflows that are induced by the high differential between domestic and international interest rates and a credible exchange rate policy. Since fiscal imbalances are the fundamental cause of high domestic real interest rates, effective control of liquidity in the medium term requires an improved policy mix involving faster fiscal consolidation. At a microeconomic level, competitiveness is adversely affected by low productivity growth relative to competitor countries. Administrative and organizational rigidities hamper the flexible adjustment of markets to changing economic conditions and pressures from globalization.

Consequently, to consolidate the progress achieved and attain sustainable growth, it is essential to pursue a strategy that combines stronger fiscal adjustment with the implementation of structural policies that will enhance the productivity and competitiveness of the economy. On the fiscal front, the Greek government intends to place greater emphasis on expenditure cuts by curtailing public employment, improving financial control of public entities, and reducing state subsidies. In addition, the effort to expand the tax base and improve the efficiency of the tax collection system will be continued, given the magnitude of tax avoidance. The structural reforms envisaged include: large infrastructure projects; measures to improve the effectiveness of public administration; policies for enhancing labor mobility and upgrading human capital; acceleration of the privatization process; and institutional and technological changes to promote the efficiency of financial markets. The government is committed to the implementation of the convergence program aimed at fulfilling the preconditions for Greece's participation in the European economic and monetary union, an objective supported by the majority of the Greek people. A consistent set of policies involving fiscal consolidation, stability-oriented monetary policy, and structural reforms will be mutually reinforcing in achieving this objective and in establishing conditions for sustainable growth.

Statement by the Governor of the Fund and the Bank for India

P. Chidambaram

Let me join my fellow Governors in congratulating Mr. Michel Camdessus for his unanimous election as the Managing Director of the International Monetary Fund for an unprecedented third five-year term. Mr. Camdessus has steered the IMF with consummate skill during a decade of remarkable economic changes. We look forward to his continued stewardship of the IMF as we prepare for the challenges of the twenty-first century. I would also like to welcome Bosnia and Herzegovina into the Bank-Fund family.

Several fellow Governors have noted favorable aspects of the world economic situation, including a pickup in world output growth, a decline in long-term interest rates, better alignment of exchange rates, and strong growth of developing countries. We should recognize that the relatively favorable economic situation is not a fortuitous outcome, but the product of many years of hard work and sacrifice in pursuit of sound economic policies at both national and international levels.

Developing countries have undertaken major restructuring of their policies, and this is reflected in improved performance. I am particularly happy to note that developing countries are increasingly playing a greater "locomotive role" in the world economy. Rapid growth in developing countries is actually strengthening the pace of growth in industrialized countries. Global economic interdependence is broadly reflected in favorable "reverse linkages" between developing and industrial economies.

The evolution of healthy economic interdependence has been greatly aided by the progress achieved in moving toward an open, rule-based, nondiscriminatory world trading system. But we still have a long way to go and threats of protectionism are ever present. The international community must remain especially vigilant and united against insidious new forms of protectionism through linkage of trade with labor standards, the environment, and other issues.

We must also avoid undue complacency about the world economic situation. Many developing countries have yet to benefit significantly from world growth and increasing interdependence. Unemployment levels in many Organization for Economic Cooperation and Development (OECD) countries remain high, reflecting loss of potential world output and providing combustible tinder to flashes of protectionist sentiment. The burden of debt bears heavily on some of the poorest countries, aid flows are declining, and there are serious concerns about the highly uneven distribution of private capital flows to developing countries and about their potential volatility.

It is a matter of great satisfaction that we have at last made progress toward solving the problem of heavily indebted poor countries. We hope that the remaining details will be sorted out expeditiously.

We also welcome the progress made in establishing the New Arrangements to Borrow, which would effectively double the resources available to the IMF under the General Arrangements to Borrow, and thus improve the Fund's ability to provide emergency financing to members in situations of systemic stress. However, access to borrowed resources cannot be a substitute for an increase in Fund quotas. The Fund's basic financial strength must be derived from a substantial expansion of its own resources through quota increases. There is an urgent need to reach a satisfactory conclusion on the Eleventh General Review of Quotas.

It is also necessary to act on a fresh allocation of SDRs. A fresh general allocation of SDRs remains, in our view, the best solution. However, as this does not have sufficient support, we have, in a spirit of compromise, supported the proposal for a special allocation with an agreed benchmark ratio to quotas through an amendment of the Articles of Agreement. We welcome the Interim Committee's conclusion that such an amendment of the Articles would not in any way affect the power to have a general allocation of SDRs when there is sufficient support for this long overdue initiative.

An increasingly large number of countries have accepted the obligations under Article VIII and moved toward current account convertibility. Success in managing current account convertibility should lead to greater flexibility in the capital account. However, it is important to recognize that complete freedom with respect to capital transactions must be approached cautiously, since many developing economies may have limited abilities to deal with volatility of capital flows, and capital flights may occur in crisis situations.

The Madrid Declaration, as modified a few days ago, gives expression to our common aspirations for the progress of the world. It is a document that stresses both growth and social cohesion. It calls for fiscal adjustment but at the same time calls upon countries to pay attention to the quality and composition of that adjustment so that nations achieve sustainable growth along with the development of human resources. This has always been our approach to fiscal adjustment, and I am happy that this finds full expression in the Declaration.

Let me now turn to issues relating to the World Bank Group. It is disappointing that official development assistance (ODA), as a proportion of the GNP of donor nations, fell to 0.27 percent in 1995. This is the lowest recorded level since the United Nations adopted the target of 0.7 percent in 1970. We do recognize that private capital flows have shown tremendous buoyancy, and many countries, my own included, are taking active steps to benefit from these flows. However, in the majority of developing countries, private flows cannot be a substitute for adequate flows of official concessional assistance. Against this background, I would like to express my warm appreciation for the tremendous energy and leadership that Mr. Wolfensohn has shown in concluding negotiations on the eleventh replenishment of the International Development Association. IDA remains central to the global effort to alleviate poverty.

There is also a need to expand the flow of resources from the World Bank. The level of World Bank lending in FY 1996 remains almost unchanged from the level ten years ago, even in nominal terms. And this despite the fact that a large number of new members have joined the Bank in the past few years, and the Bank has the headroom necessary for new lending. There is a case for increasing the flow of lending from the World Bank to support critical areas, including especially infrastructure. This is an area where most developing countries are trying to increase both public and private investment. I believe the World Bank can help support this effort through a combination of direct lending and imaginative use of guarantee facilities.

I have already welcomed the World Bank role in the joint initiative to alleviate the debt problems of the heavily indebted poor countries.

However, I should like to emphasize the paramount importance of preserving the financial integrity and preferred creditor status of multilateral creditors. The present debt initiative must therefore be a one-time initiative, with clear boundaries. The structural conditions that have led to the need for this extraordinary initiative have to be addressed in a forthright manner so that they do not recur. I am happy to know that the President of the Bank is very conscious of these issues and has launched a number of initiatives to bring about necessary changes in Bank lending practices.

Turning briefly to developments in India, I am happy to report that the postcrisis recovery, ushered in by the reform process begun in 1991, is continuing. Economic growth has averaged 6.5 percent in the past two years, and inflation has come under control. Industrial growth accelerated to 12 percent in 1995–96, and a third consecutive year of strong export performance recorded growth in dollar terms of more than 20 percent. Foreign investment inflows are steadily increasing, and our foreign exchange reserves are comfortable. The prospects for 1996–97 are for continued growth at 6.5 percent. Strong growth has ensured the expansion of employment and reduction in poverty.

Our four-month-old government has already passed a fiscally prudent budget and taken steps to deepen and widen the process of economic reforms. We have aimed to reduce central government's fiscal deficit to 5 percent of GDP, continued the process of tax reforms, undertaken new initiatives to encourage foreign investments, and established a target of $10 billion a year of direct foreign investment. We are also strengthening the institutional structure and trading and settlement practices in the domestic capital market, and have established a Disinvestment Commission and initiated measures for public sector reforms. The budget has accorded priority to agriculture, social sectors, and infrastructural development.

We are hopeful that these and other measures will address the critical constraints on India's economic development and ensure sustained, broad-based growth at about 7 percent a year. We are deeply conscious that the rapid economic growth with substantial budget allocations for health, education, and basic minimum services, under a caring and compassionate government, provides the surest route to abolishing the scourge of poverty from our country.

To achieve this cherished goal, we, like other developing countries, need a supportive international economic environment. We need sustained expansion of world trade in an open and nondiscriminatory system. We also need strong and well-equipped international financial institutions that are responsive to our needs and the fast-changing global environment. I believe the World Bank and the IMF are geared and able to fulfill their mission and, therefore, they continue to have our support.

Statement by the Governor of the Bank for Indonesia

Mar'ie Muhammad

I would briefly like to touch upon two issues of considerable importance. First, I would like to comment on the framework proposed by the Bank and the Fund to deal with the external debt problems of the most severely indebted countries. Second, I would briefly touch on the two trends that mark world trade: the growing role for regional trade associations and the reliance on multilateral trade.

Before doing so, let me note that Indonesia's per capita income now stands at about $1,000, a considerable increase from the $550 level we achieved in 1985. Even two years ago, Indonesia was classified as a "low-income country." While this recognition of our progress is heartening, I think it is more important to note that Indonesia's growth has been accompanied by substantial reductions in the number of persons living in poverty.

This growth has been achieved through the application of a number of clear policy principles. First, we established and maintained a stable, consistent, and prudent macroeconomic framework. As part of that framework, we steadfastly refused to monetize budget deficits. Second, we ensured that our economic activities, particularly in the industrial sector, achieve and maintain international competitiveness. And third, we have maintained the free convertibility of the rupiah, which ensures that our domestic investors can borrow at the most competitive rates and that foreign investors can easily partake of the many opportunities in Indonesia. This perennial achievement is based on basic principles of our development, namely stability, growth, and equity.

With some variations, these same policies are followed in all the high-performance East Asian economies. As a consequence, the global center of economic activity has shifted. This is slowly being recognized in the composition of those bodies that have played a leading role in setting global economic policies and guidelines. For example, the Bank for International Settlements recently announced an expansion of its membership to include some of the rapidly growing Asian economies. I welcome this development and hope that other international economic bodies will follow suit. Enlarging the membership of these bodies gives the more dynamic developing economies a forum to express their legitimate concerns.

Let me now turn to the other important issue at hand. Three years ago when I had the honor of addressing this body for the first time, I noted that "the successful resolution of the debt crisis is in the interest of developing and developed countries alike." That is still true today. Although some developing countries have experienced robust growth, such is not the case for the most severely indebted countries. If they are to achieve long-run sustainable growth, they require long-term debt relief. In 1966, Indonesia was the recipient of long-term debt relief. Such debt relief significantly assisted us in the early stages of our development program.

Let me stress that Indonesia has honored fully, and will continue to honor fully, all its international financial obligations. Indeed, I should add that as part of our prudent debt management we have prepaid, and will continue to prepay, some of our loans, using proceeds from our privatization endeavors and from our budget surplus.

I am encouraged that the Bank, under the dynamic leadership of Mr. Wolfensohn, together with the Fund, takes breakthrough steps to provide a new hope to the many poor countries, which desperately need to see that development can make difference in the lives of their peoples. Long-term debt relief is an essential element for economic progress, and, without such relief, the severely indebted countries cannot achieve the growth needed to lift their populations out of poverty.

While Indonesia supports the heavily indebted poor countries debt initiative, we would note that there are elements of the proposal that need strengthening. First, Indonesia hopes that the Bank and the Fund can be more forthcoming in their contributions. Foremost, we would hope that the Fund would participate in the trust fund that is to be set up. This is important because such a fund can be used to reduce the stock of debt, whereas the proposed IMF contribution in terms of grants and softer Enhanced Structural Adjustment Facility (ESAF) loans would only provide for debt-service relief. Second, while Indonesia appreciates the need to monitor economic reforms for some time to ensure that they are well founded and effectively implemented, we would hope that the decision point under the initiative could be shortened. And finally, debt relief must be based on burden sharing. Indonesia hopes that the World Bank, which has already taken some important steps, could increase its contribution to the trust fund.

Let me now briefly turn to the issues of regional and international trade relations. World trade is marked by two apparently divergent trends. On the one hand the Uruguay Round is complete and the World Trade Organization (WTO) can now focus on ensuring that the promise of free trade is realized. In this regard, we urge the WTO to implement the concept of "universality of WTO membership," and not to take up nontrade issues. At the same time we witness the growing popularity of regional trading arrangements, such as Association of Southeast Asian Nations (ASEAN) free trade area (AFTA). We also have seen the establishment of the Asia-Pacific Economic Cooperation forum, with its 18 member economies.

We are aware that our economic success continues to depend on our participation in international trade and the global capital market. But the growing reliance on regional trading associations need not run counter to the fundamental General Agreement on Tariffs and Trade (GATT) principles of nondiscrimination and the creation of a trading system based on multilateralism. Indeed, on November 14, 1994 at the conclusion of the Asia Pacific Economic Cooperation (APEC) conference held under the leadership of President Soeharto, the Bogor Declaration committed the APEC economies to actively pursue free and open trade in the Asia-Pacific region.

Let me conclude by expressing the appreciation of the government of Indonesia to the World Bank and to the International Monetary Fund for the sustained support they have given to our development efforts. We look forward to maintaining a constructive dialogue for many years ahead.

Statement by the Governor of the Bank for the Islamic Republic of Iran

Morteza Mohammad-Khan

At the outset, I would like to congratulate Mr. Camdessus on his new term as Managing Director of the International Monetary Fund. We hope that under his leadership the Fund will continue to make new contributions to world financial stability and development in these difficult and challenging times. I am pleased to see Bosnia and Herzegovina seated for the first time at these meetings as a member. I hope that this will signal an era of peace and reconstruction in Bosnia and Herzegovina.

The world economy is increasingly being shaped by the processes of globalization and liberalization. Restructuring of the global economy and of national economies through structural adjustment has been driven by the promise that a higher growth rate will translate into improved standards of living for individuals and the world community as a whole. The current *World Economic Outlook* presents an optimistic appraisal of the prospects of the world economy and reveals that certain countries in the developing world have made substantial progress in economic development. However, there is now concern that the convergence and divergence consequences of the globalization and liberalization are accentuating income disparities in the world economy, with most of the benefits accruing to the already industrialized and a relatively small number of newly industrialized economies, while the weaker developing countries and the least-developed countries have become poorer and progressively marginalized from the mainstream of the world economy. The ability of these countries to create a stable macroeconomic environment is being weakened by declining terms of trade and susceptibility to fluctuations in international commodity prices and interest rates. The growing reliance of commodity exporting countries on a narrow band of commodities being produced by an increasing number of low-income countries has increased their vulnerability to external shocks and pressures, a phenomenon that calls for more international support and particular efforts by the Bretton Woods institutions.

I would like to proceed by acknowledging the commendable joint initiative by the World Bank and IMF, particularly the personal dedication of Mr. Wolfensohn and Mr. Camdessus, to relieve the debt burden of the world's heavily indebted poor countries. It should be emphasized that sustainable levels will only be achievable by the joint action of bilateral creditors, multilateral financial institutions, and other concerned parties.

I also wish to acknowledge the recent institutional changes in the Bank as well as the new policies adopted to consolidate its operational thrusts, particularly its recent philosophy to measure the Bank's performance in terms of its efficiency in reducing poverty, rather than sheer number of approved loans. I would like to express my support in principle for the Bank's recent cofinancing strategy and guarantee policy, aiming to increase financial resource flows to developing member countries, especially in view of the huge investment requirements of infrastructure developments. However, this policy should not affect the net allocations of the Bank's own resources to developing member countries, or prevent the Bank from discharging its responsibility to finance big infrastructure projects.

One important issue, which has drawn increasing attention in recent development debate, is good governance. No doubt the policy environment in which development takes place should be appropriate, and accountability, participation, predictability, and transparency issues should be addressed. Despite constructive intentions that might have been behind the idea of requiring good governance, there is concern regarding its abuse—that it might serve as a tool to impinge on national sovereignty. In particular, this could occur where extraterritorial aspects of certain internal legislations, by transgressing the globally accepted rules and principles, exert undue political pressures on other countries that are merely seeking their own freedom and independence. As a result, the Bretton Woods institutions, by upholding the notion that is explicitly stipulated in their founding charters, should maintain their full independence, and elude any discriminatory treatment being forced by certain members against the others. In our opinion, the Bank, by being affected by the particular political interests of one of its members, has indeed not adhered to the principles of the Bretton Woods institutions.

We support the IMF's proposed framework for funding continued Enhanced Structural Adjustment Facility (ESAF) operations that seek to balance the large uncertainties related to the demand of ESAF resources, in connection with both ongoing ESAF operations and the debt initiative. We also support the IMF's proposal to sell a limited amount of gold to raise the subsidy resources to back up a self-sustained ESAF for an interim period. We feel that ESAF operations are the centerpiece of the IMF's strategy to help low-income countries facing protracted balance of payments problems, including the most heavily indebted.

Large use of IMF resources during 1995/96, and expected high demand for its resources over the next few years on one side, and the constraints of the IMF liquid resources on the other side, call for an increase in Fund resources. In this regard, a general increase in quotas within the context of the Eleventh General Review of Quotas enjoys our full support. We also fully support the proposal of the Managing Director of the Fund for a one-time special allocation SDR 26.6 billion through the amendment of the Articles of Agreement. We give our support in the spirit of compromise to achieve an equitable allocation of SDR quotas for all members. We expect, as part of this compromise, that the Managing Director of the Fund will propose a general allocation, should the amendment not be ratified.

Among other issues deserving special attention is the procedure for compulsory withdrawal pursued by the IMF against certain members with protracted arrears. Recognizing that nonfulfillment of obligations by these members is the direct consequence of poverty, and that the international efforts, particularly the joint debt initiative by the World Bank and IMF, are directed toward the alleviation of the debt burden of the heavily indebted poor countries, compulsory withdrawals will not help the situation but will further intensify the deteriorating conditions. We believe the IMF should continue to work closely with countries in arrears to help them resolve their overdue financial obligations.

Now, I would like to present an overview of economic conditions in my country.

The first five-year development plan, which was based on an import substitution policy and promotion of required infrastructure, came to a successful end in 1994, resulting in an average annual growth rate of 7.3 percent. The second five-year development plan, which commenced in March 1995, pursued the earlier economic reforms, but also addressed the present challenges in economic, social, and cultural development, and aimed at further sustainable economic growth and greater social justice. The second development plan concentrates on the completion of investments already made in the fields of basic infrastructure, such as energy, water resources, transportation, and communications. The country's present power-generating capacity, a major recent achievement, not only meets the domestic consumption requirements, but provides exports as well. The existing transportation infrastructure of the country is now capable of providing proper links between central Asian landlocked countries and other parts of the world by connecting those countries to international waterways and to European countries in the West. Opening of the new silk road has been one of our major achievements.

In light of the political stability and enhanced economic capacities acquired by the country, our current economic strategy was founded on two main pillars. First, a self-sustained economy, independent of crude oil export revenue, aims to minimize the dependence of the government budget on oil income in the medium term. In this regard, some of the selective policies are:

- increasing the tax revenues by improving the taxation system;
- diversification and expansion of non-oil exports; and
- reduction of government expenditures.

Second, greater social justice will be attained through the reduction and containment of inflation, promoting people's purchasing power, and enhancing poverty alleviation programs.

In the last two years, the economic policies adopted have emphasized sustainability, external sector viability, better fiscal discipline, and stronger commitment to social sectors and human resource development. To date, the macroeconomic results are encouraging. We have been able to bring inflation down and pursue our economic strategy in a more flexible and stable macroeconomic environment. Economic stabilization, price stability, effective control over monetary aggregates, balanced budget, and exchange rate stability were among the achievements of the last two years. All these successes have been achieved despite lack of cooperation from the international markets and at times a very hostile external environment.

Statement by the Governor of the Fund for Iraq

Hikmet M. Al Azawi

Mr. Chairman, I would like to begin my remarks by extending my congratulations on your being selected to chair the 1996 Annual Meetings of the Governors of the International Monetary Fund and the World Bank Group.

During the Annual Meetings in 1992 and 1994, the Iraqi delegation asserted that the economic sanctions imposed upon Iraq and the freezing of its assets were completely incompatible with one of the most important purposes of the International Monetary Fund, as stated in the Articles of Agreement, paragraph 4 of Article I, which calls for the elimination of restrictions and obstacles to international trade and settlements in order to achieve economic stability and prosperity. Today I assert for the third time that this abnormal situation, which opposes and contradicts the philosophy of the IMF and its Articles of Agreement, remains in effect despite the fact that over six years have elapsed. I therefore appeal to the Fund, in accordance with its fundamental purposes, to raise its voice against continuation of the economic sanctions that have been in effect all these years, particularly in view of the fact that Iraq is one of the founding members who signed the Bretton Woods Agreement in 1945.

On March 20, 1996, after negotiations that lasted more than three months, Iraq signed a memo of understanding with the Secretariat of the United Nations, whereby it would be allowed to export limited amounts of oil and thus be able to import food, medicine, medical equipment, and other necessities to meet the humanitarian needs of its citizens, in accordance with Security Council Resolution No. 986 of 1995. It is truly paradoxical that this agreement has still not been implemented more than four months after it was signed, owing to the position taken by the United States and supported by Britain, but not by the rest of the international community. The international community's objective with respect to this agreement between Iraq and the UN Secretariat, as you know, was to alleviate a small portion of the suffering and pain of the Iraqi people caused by the extended sanctions, whose harshness has never been equaled in the modern history of mankind and which are in gross contempt of international law.

During the 1994 Annual Meetings in Madrid, the Iraqi delegation described in detail the effects of the continued sanctions, both economic and humanitarian, including the direct effect on production and all economic sectors involving goods and services; spiraling inflation rates and the resultant decline in family incomes; the shortage of medicine and medical equipment and the resultant increase in death rates in all age groups; and new epidemics of infectious diseases that had once been totally eliminated from Iraq, including infantile paralysis, cholera, viral hepatitis, and other infectious diseases; and the contamination of the environment and its direct negative impact on life in Iraq.

Despite the efforts of Iraq to implement the Security Council's resolutions, including its total cooperation with the Security Council and with the special committee chaired by Mr. Rolf Ekeus, and despite the efforts of the Iraqi delegation to sign a memorandum of understanding with the UN Secretariat, the biased political position of the United States and the United Kingdom—alone in the international community—has prevented the removal of economic sanctions or even implementation of the memorandum of understanding, notwithstanding the insistence of the international community that it be implemented without delay. These two countries have not limited themselves to biased political actions aimed at extending the economic sanctions, but have also unilaterally imposed no-fly zones above the 36th and below the 33rd parallels in northern and southern Iraq, based on unfounded and false pretenses of protecting the rights of Shiite Kurds in these regions, while it is well known that the Kurds are united in spiritual solidarity with all the citizens of their beloved country. Our citizens in southern Iraq, just as in the north, center, east, and west, Christian and Muslim alike, Shiite or Sunni, Kurds and Arabs, are all engaged in the difficult tasks of producing needed goods and fighting against hunger, disease, and the conspiracy aimed at destroying the unity of Iraq.

In light of all that I have said, I request the International Monetary Fund and the World Bank, based on the principles set forth in the Articles of Agreement, to call for the removal of economic sanctions and the release of Iraqi assets held by international banks. I humbly appeal to all Governors present today, Ministers of Finance, and Governors of Central Banks, to explain our situation to their respective governments and seek their assistance to end the suffering and pain of the Iraqi people, to restore balance to our relations with the international community, and to stop the coercion and tyranny being imposed on Iraqi society, for there is no guarantee that tomorrow it will not be imposed on other societies. I request your cooperation to help remove the economic sanctions and no-fly zones, imposed unilaterally without the benefit of a Security Council resolution or international approval.

Statement by the Governor of the Fund and the Bank for Ireland

Ruairi Quinn

As Ireland currently holds the Presidency of the Council of the European Union, I am honored to address this meeting on behalf of the Union.

Against a background of slower than anticipated growth in 1995, the prospects for growth in the international economy in 1996 have improved since the beginning of the year. Some of the major European economies experienced a growth pause in the early months of the year, but a stronger performance during the second half of 1996 is likely to lead to moderate growth for the year as a whole. Thanks mainly to the persistence of strong economic expansion in Asia, output growth in the global economy is forecast to reach about 3.8 percent this year, while growth within the industrial countries area should continue to strengthen to about 2.3 percent. On the basis of a continuation of current policies, we would expect this rate of growth to strengthen in 1997.

In the United States, growth has been underpinned by continued buoyancy in investment and private consumption. Unemployment is now nearing a 20-year low, while risk of an acceleration of inflation cannot be excluded. In Japan, the recovery, which began in late 1995, is strengthening and broadening, aided in part by strong growth in public investment. The recovery is forecast to continue, albeit more moderately, in 1997.

In the developing world, economic growth remains buoyant, although unevenly spread among the regions. Economic recovery has continued within the countries of central and eastern Europe, although performance from country to country is uneven. In the Baltic countries, Russia, and the countries of the former Soviet Union, the progress of reform has not yet generated economic growth in all successor countries. Nevertheless, there are good prospects for 1997.

In the European Union, growth is unlikely to reach much more than 1½ percent in 1996. However, we expect a stronger performance in the European Union during the second half of this year to continue into 1997, as business and consumer confidence within the Union recover. The expectation of a rebound in economic activity is based on the improved fundamentals within the European economy, including good investment, profitability, and moderate wage developments, and a favorable international environment. Average inflation in the Union is expected to continue its downward trend in both 1996 and 1997, reflecting continued wage moderation and the stability-oriented stance of monetary policies.

Unemployment within the European Union is a matter of great concern. While the conditions for recovery in Europe are in place, its rate of unemployment remains unacceptably high. It is clear that creating the conditions for the maximum possible increase in sustainable employment must be a major priority of economic policy in the Union and for the member states. Sustainable employment creation requires an approach that, while taking account of the needs of the environment, involves macroeconomic stability; structural reforms in the functioning of product and services markets as well as labor markets; and a wide range of labor market policies designed to help, among others, the labor categories particularly hit by unemployment (for example, the long-term unemployed, and, in most countries, the young, women, and the unskilled). A Single Report on Employment will be agreed upon by the Council on economic and financial affairs, the Council on social affairs and the Commission before the end of this year; this report will review the measures taken in the individual member states to implement the principles agreed by the European Council in Essen. Other initiatives related to employment include President Santer's proposal for a Confidence Pact on Employment, the Commission's proposal for establishing an Employment and Labour Market Policy Committee to advise the Council meeting on social affairs, and President Chirac's initiative on the "European Social Model." The coordination of member states' employment policies is an important issue on the agenda in the Inter-Governmental Conference (IGC). Among other things, the IGC will have to determine whether and how the Treaty could further help the efforts of governments and the social partners in the field of employment.

Considerable progress has been made within the Union in respect of price and exchange rate stability. More limited progress has been made with respect to the fiscal convergence criteria established within the Maastricht Treaty. Nevertheless, the general government deficit of the member states as a whole fell by ½ of 1 percent of GDP in 1995, despite the adverse impact of the slowdown in economic growth. However, at 5 percent, it remained far too high, and only three member states reported general government deficits not exceeding 3 percent of GDP in that year. Clearly, this signaled an urgent need for stronger measures to be identified and implemented to reduce government deficits. The response of member states makes clear their commitment to credible and well-designed reductions in budget and social security deficits, although efforts need to be stepped up in some countries. Despite unfavorable economic conditions in the early part of 1996, substantial corrective packages have been undertaken, which are expected to lead to a further significant reduction of budget deficits in the Union this year and an even more significant improvement in 1997.

The European Council in Florence confirmed the continued commitment of the member states to strict budgetary discipline on an enduring basis. There can be no doubt of the importance of this for the Union as a whole, in terms both of the changeover to the single currency and of the smooth functioning of the single market. Budgetary discipline, combined with monetary policy directed at price stability, will enhance growth prospects—even in the near term—through boosting business and consumer confidence and reducing interest rates, thereby stimulating investment, growth, and employment. Preparations for the third stage of Economic and Monetary Union, which will begin with the introduction of the single currency on January 1, 1999, are currently focused on developing appropriate arrangements for securing budgetary discipline ("stability pact") and for promoting currency stability between participants and nonparticipants in the single currency area.

Maintaining macroeconomic stability in the third stage will be a key factor in ensuring the success of Economic and Monetary Union. In a report on preparations for that stage endorsed by the Florence European Council last June, the Council of Economic and Finance Ministers highlighted a number of areas where progress could be made in relation to budgetary discipline within the provisions of the Treaty on European Union. One relates to the further development of multilateral surveillance procedures, such as effective early warning procedures, to prevent excessive deficits from happening. In addition, considerable work is being done to strengthen and accelerate the excessive deficit procedure, with the aim of making it more of a deterrent and effective. In the coming months, many details, such as the definition of sanctions in the event of an excessive deficit, will have to be dealt with.

Another important issue for all member states is the relationship between the euro and the currencies of member states not participating in the single currency area from the outset. A particular concern is the potential for unwarranted currency movements to cause distortions within the single market. In this regard, the Economic and Finance Ministers' Report in Florence emphasized the importance of disciplined monetary policies combined with sound fiscal and structural policies for the achievement of exchange rate stability. We are also working toward agreement on the operating features of a new exchange rate mechanism, to be in place at the beginning of the third stage, which will further support exchange-rate stability among member states.

The European Union now stands at a crucial juncture in its development. The current agenda reflects the continuing concerns and preoccupations of the Union and of the member states. We are seeking to steer the Union through a number of major decisions, both in addressing institutional and other issues at the Inter-Governmental Conference and, at Council, in tackling some of the critical economic and social challenges confronting the Union's citizens. At the same time, the Union must continue to ensure balanced economic development in order to realize the full potential of the internal market. It will also equip itself to play a role commensurate with its responsibilities in Europe and in the wider world. It must therefore prepare to admit other democratic European nations that wish to become members. Last, but nevertheless of the greatest importance, the Union must build upon its achievements so that the peace and prosperity it currently enjoys are consolidated for future generations.

Within the ambit of the Council meeting on economic and financial affairs, the main priorities, in addition to employment and the preparations for the third stage of Economic and Monetary Union, include taxation issues and financial services. The development of Community lending to third countries is also a significant issue, to which I will return.

The Inter-Governmental Conference is, of course, of major significance to the development of the European Union. The main topics being considered by the IGC fall into three categories:

- first, making the Union more relevant to its citizens;
- second, enabling the Union to work better and preparing it for enlargement; and
- third, giving the Union greater capacity for external action.

Considerable work has been done on each of these issues during the first half of 1996. The Florence Council has asked that a general outline for a draft revision of the Treaties be prepared for the Dublin Summit in December, with a view to completing the Conference by mid-1997.

As I have already indicated, there are positive signs for world economic growth as a whole. These include relatively low levels of inflation generally, the fact that interest rates in many industrial countries are at a level that is conducive to business investment and economic expansion, and the continuing expansion of world trade associated with greater globalization. At the level of the world economy, however, there are still many major problems to be overcome. The value of closer contacts between international trading partners is reflected in the plan to hold a meeting between European and Asian finance ministers next year, when we look forward to discussing matters of common interest.

I am glad that the IMF and the World Bank Group are continuing, within their respective mandates, to address the problems and to enhance their effectiveness toward that end. We hope that the World Trade Organization meeting in Singapore will be successful in further stimulating the liberalization and expansion of trade. I would like to focus my remarks on a number of specific areas, namely financial resources, debt relief, and development issues.

The European Union notes that progress has been made on the Eleventh General Review of International Monetary Fund quotas and that the Interim Committee has asked the Executive Board to agree on the outlines of the next IMF quota increase as soon as possible. The European Union calls for a timely conclusion of this review.

The Union welcomes the agreement in principle that was reached on the New Arrangements to Borrow (NAB) for doubling the resources currently available to the IMF under the General Arrangements to Borrow. This arrangement will include a broader group of countries with the capacity to support the international monetary system. The availability of these additional resources will increase the capacity of the IMF to cope with exceptional situations that pose a threat to the international monetary system. Such borrowing arrangements, however, cannot substitute for a quota increase, which is the main source of IMF liquidity.

The European Union notes the Interim Committee's endorsement of the consensus reached in the Executive Board of the IMF on a way for all members to receive an equitable share of cumulative SDR allocations, and now looks forward to the finalization of work by the Executive Board on this issue.

The provision and effective use of the Fund's financial and staff resources are critical to its success. The prevention of balance of payments disequilibria should remain the focal point of Fund policy. The European Union therefore welcomes the IMF's continuing review and adaptation of its surveillance regime. The establishment of the Special Data Dissemination Standard is a welcome innovation that will, in time, reduce the likelihood of sudden and disruptive market reactions before manageable problems grow to crisis proportions. We call on developed and developing countries to join. We look forward to further progress in this area, notably in establishing a general standard for data dissemination for all members shortly.

The progress of recent days with the initiative to address the problems of a limited number of poor countries with unsustainable levels of external debt, which maintain sound policies, is a welcome development. We look forward to the implementation of the outcome of the deliberations of the Interim and Development Committees on this issue.

The member states of the European Union are prepared to support the alleviation of debt burdens in countries with sound economic policies, through bilateral assistance as well as through a contribution to the resolution of the Enhanced Structural Adjustment Facility (ESAF) financing issue. There is a widespread acceptance that the ESAF plays a meaningful role as a centerpiece of Fund strategy to help low-income countries in conjunction with the International Development Association (IDA) in a fully effective multilateral effort. A joint effort by bilateral donors and creditors and the Bretton Woods institutions is essential to make a meaningful impact on the problems of these countries.

The IDA-11 and African Development Fund replenishment negotiations were a significant achievement this year. We reaffirm our commitments to the principle of multilateralism and the need for each member of the international institutions to fulfil the financial commitments it has adhered to. It is important that all donors ensure the success of IDA-11 by fully respecting their commitments on time. However, issues other than funding must be borne in mind if the IDA and other development funds are to continue to be valuable development instruments. It is important to continue to improve their effectiveness and developmental impact.

In a fast-changing world, all institutions need to conduct a continuous assessment of their performance if they are to ensure their continued relevance. The recent report of the Task Force on Multilateral Development Banks was particularly useful in this context. These banks must now act on the recommendations made to strengthen further their policies and practices.

We consider it desirable that the IMF and World Bank define jointly with the United Nations and the WTO a medium-term strategy for Africa, thereby building on the special initiative launched by the UN Secretary General on March 15. This strategy could be described in a joint document issued by the four organizations, proposing coordinated action for the development of Africa and its integration into the world economy.

For the Union and its member states, support for the Bretton Woods institutions is just one aspect of a broader commitment to assisting developing countries. The Union and its member states are actively furthering the development of less-developed countries through the member states' bilateral aid programs, the European Community budget, the European Investment Bank, and the European Development Fund. The Union is now active in the African, Caribbean, and Pacific states through the Fourth Lomé Convention, in central and eastern Europe, the Mediterranean, Asia, Latin America, Gaza, the West Bank, and South Africa. A decision on the renewal of European Investment Bank (EIB) lending mandates will have to be taken later this year.

The Union's relationship with third world countries has often provided the lead for others to become involved. In the case of transition economies, we have supported reform through substantial financial contributions. In appropriate cases, it is our policy to continue to do so, subject to proper burden sharing by other contributors. The European Union was among the first to pledge a significant amount of money to the reconstruction of Bosnia. Its efforts have been very closely coordinated with the World Bank and have led to the participation of a large number of other bilateral donors. It is important that the "developed" countries do not become hardened to the needs of those countries recovering from political and social upheaval. Therefore, the Union and its members call on donor countries to continue to supply countries in need with bilateral assistance.

During the last year, much has been achieved by the international financial institutions. We are making progress toward improved approaches to the debt problem, though implementation will take time. We are in a better position to cope with global financial crises. The member states have reinforced their commitment to development through the eleventh replenishment of IDA and the seventh replenishment of the African Development Fund.

However, we have also had to face considerable challenges. Each of us is aware of the limitations of national budgets and the limitless demands on them. A wholehearted commitment to multilateral action is vital if the international financial institutions are to continue to be relevant in a changing world. In a complex and rapidly changing world, the choice for governments is not between multilateralism and bilateralism; the challenge is to integrate both in an appropriate way and thus to optimize results at national and global levels.

On behalf of the member states of the European Union, may I take this opportunity of congratulating the Bretton Woods institutions on their achievements this year and reiterate our support for their important role within the international monetary system and for development.

I would now like to make some comments on developments in the Irish economy. For most of the last decade, Ireland's economic performance has been exceptional by European and Organization for Economic Cooperation and Development (OECD) standards. Economic growth has been about twice as fast as the European Union average. At the same time, inflation has been below the EU average, and the general government deficit has been below 3 percent of GDP each year since 1989.

Over the two years 1994 and 1995:

- GNP growth averaged almost 7½ percent (well balanced between domestic demand and net exports);

- Employment expanded at an annual average rate of almost 3 percent;
- Inflation remained low at about 2.5 percent; and
- Budgetary discipline was maintained—with the general government deficit comfortably below the 3 percent Maastricht Treaty guideline.

In 1996, for the third year in succession, the Irish economy will be one of the fastest growing in the OECD. However, while growth will remain strong by international standards, it is likely to moderate to around 6 percent in volume terms, reflecting the less favorable EU economic environment. This year, domestic demand is the major contributor to growth, with consumer spending and investment growing strongly. Employment will increase by around 3¼ percent; but the reduction in unemployment will be smaller than this because of labor force growth. Inflation will be moderate, at under 2 percent. Export growth will be slower than in 1995, but despite this, a further healthy current account surplus is in prospect. On the fiscal side, it is now clear that the general government deficit will be well below the budget target of 2.6 percent of GDP.

Looking further ahead, Ireland should continue to achieve growth rates well above the European Union average over the next few years. This will enable further progress in terms of increasing employment and reducing unemployment. Fiscal discipline will be maintained, and inflation will remain moderate. However, achievement of all this will depend crucially on continued wage moderation at home and sustained recovery in Europe.

What have been the reasons for Ireland's exceptional performance? There are many factors that could be cited, but let me briefly outline what I believe are the principal ones:

- the prudent fiscal and economic policies adopted by successive governments here since the mid-1980s;
- the consensus among the social partners (government, employers, trade unions) on the broad parameters of policy—low budget deficits and moderate nominal pay increases to maintain competitiveness, boosted where possible by tax reductions to ensure real increases in take-home pay;
- low interest rates, which are in part the reward for prudent policies enunciated above;
- the rising education and skills level of new entrants into the labor force, with a consequent increase in productivity;
- strong foreign direct investment, which helps to overcome capacity constraints and provides the foundation for future growth; and
- the impact of EU structural funds since the late 1980s, which are also raising the growth potential of the economy.

Needless to say, this very positive picture does not mean that we do not continue to face very serious and significant challenges:

- Unemployment remains unacceptably high. While employment growth has been impressive, it is barely sufficient to keep pace with the natural increase in the labor force, rising female participation rates, and the prospect of inward migration in response to improved employment prospects at home.
- As a small, open economy, we are particularly sensitive to developments in the world economy, and the slowdown in the major European economies this year is having an impact on our export performance.
- We are clearly benefiting from foreign direct investment, particularly in the more modern high-technology sectors. But our more established industries are vulnerable to competition from newly emerging lower-cost locations.
- The Bovine Spongiform Encephalopathy (BSE) crisis and slump in the demand for beef in Europe is a particular problem for us, since we export the bulk of our cattle output, and agriculture is still relatively more important to us than to most other EU members.
- Buoyant growth can give rise to excessive expectations regarding public expenditure and taxation.

I am confident we can meet these challenges successfully by maintaining and developing our current broad policy setting. The demonstrable success of these polices will be a key factor in supporting the measures that will be necessary for continued growth in a rapidly changing world economic environment.

STATEMENT BY THE GOVERNOR OF THE BANK FOR ISRAEL

Jacob A. Frenkel

Mr. Chairman, distinguished Governors, delegation members, ladies and gentlemen, Managing Director of the International Monetary Fund, President of the World Bank Group: it is a great honor for me to address you today as Governor for Israel.

The world economy is in positive shape. This was the message conveyed in the discussions to date. World growth has reached 3.8 percent, which is the highest level since 1988. Just recall that a few years ago many countries were in the negative territory, and today industrial growth has reached 2.3 percent and developing countries' growth for the fifth year in a row exceeds 6 percent; and for the first time, the countries in transition are about to leave the minus territory.

Inflation in the world economy is so much lower in the industrial world; it is between 2 percent and 2.5 percent, one-third of the level just a decade ago. In developing countries it is at its lowest level in recorded history, and it is less than one-half of what it was just a decade ago. This is not the result of an accident. It is the result of strategic policy decisions guided, aided, and supported by the multilateral organizations that we are all members of.

Trade in the world economy expands, and just a few years ago, each Governor concluded his remarks by hoping that the Uruguay Round would be concluded and the World Trade Organization (WTO) would be established. Well, this is behind us. And budget consolidation is not part and parcel of the strategy of policymaking in the world economy.

The Managing Director reminded us of the crisis that was with us three years ago—Africa, protracted decline in per capita income; two years ago, Russian hyperinflation; a year ago, Mexico. Those of you who looked at the proceedings for the previous years, for 10 years, for 20 years, will have found that each year there was another crisis. And yet the world economy sailed through each crisis, and one of the reasons is that the policy prescriptions and policy advice shifted from being a strategy of crisis management to being a framework of economic policy within which, of course, there were ups and downs, but basically the way is forward.

Just years ago, Governors were standing here and asking about the mission for the Fund and the Bank and what the agenda is in the new era. I believe that those of us who listened carefully to the statements yesterday of the Managing Director and of the President found that the key questions have received satisfactory answers and that the two organizations are meeting the challenges of the new realities—the reality of new global markets of open capital account, the reality of a strategy of reducing the size of government, the reality of changes in the geopolitical picture, and the reality of democratization as an approach that moves forward. And in this regard, the International Monetary Fund is now encouraging an Article VIII-type arrangement for the capital movement. It is encouraging the development of a database that is timely and updated. It is emphasizing the importance of macroeconomic management and, of course, it is ready to stand and meet the challenges of emergency situations.

In the World Bank, there is growing emphasis on the role of the private sector and cooperation; there is again growing emphasis on structural reform, and a renewed emphasis, as President Wolfensohn stated yesterday, on people and on the social dimension of all of what we are saying.

Basically, in some languages some of you may notice that the concept of crisis is a concept that combines two elements: an element of danger and an element of opportunity. And in many languages the notion of crisis and crisis management appropriately is leading the way from averting dangers and seizing the path that opportunity presents itself.

In an era of globalization, a notion that was so well emphasized by the Managing Director yesterday, we are now in the midst of it. Markets such as goods markets are global, service markets are global, and capital markets are global. The market for ideas is global, and also migration is now much more prevalent.

These facts mean that we have much more consensus today about what it takes to achieve sound economic policy. We no longer have the debate of old times between populism and professional economics but, rather, it is more and more recognized among policymakers that good economics is basically good politics. But because of the fact that we are responding very rapidly, it therefore requires a renewed focus on multilateralism. This is the framework that provides the rationale for strengthening our multilateral organizations, the very fact that borders no longer recognize knowledge, pollution, or terror, as well as good consequences of economic policies.

And we are now witnessing the results of the silent revolution that was coined a few years ago. We see that growth will not be sustainable unless it is grounded on structural economic policies. We have learned that there is no trade-off, that you cannot buy growth by accelerating inflation. And we have learned that structural policies and macroeconomic policies are not substitutes but, rather, they are complements that reinforce each other. It makes no sense to have macroeconomic policies in an environment full of distortions, and efficacy of macroeconomic policies will be enhanced through competitive forces that will be brought about by structural policies.

This brings me, of course, to the point of quality of measures. It is not only on the quality of people that we must focus but also on the quality of measures. And it is not good enough, as the IMF now emphasizes, just to cut down budget deficits; rather, one needs to be much more informative, maybe a little intrusive in some places, by noting that one should not cut education spending, infrastructure spending, research development spending, with the effort of cutting down the budget deficit, but, rather, one should just focus on the expenditures that are wasteful and the like.

We have learned—and the Mexican experience has given us another renewed reminder—that you cannot sustain growth unless you rely on domestic savings. And, therefore, savings must be the base for investment, but you must also enhance the domestic base for your savings so you reduce vulnerability. But in order to do this, financial market reform must be key, because only under these circumstances will we see savings encouraged as the planning horizons of households and entrepreneurs are being lengthened.

This is the reason that IMF programs as well as the World Bank orientation are cases in a medium-term strategy in a multiyear approach. And this is the reason that more and more we realize that the unemployment problem is not a macroeconomic business cycle phenomenon but, rather, a structural phenomenon that requires handling with and through structural measures of job retraining and the like.

This, therefore, brings again a renewed emphasis on the need to fight protectionism as much as one can, especially in a day in which budgets are tight, and the best way that industrial countries can help the developing countries and the countries in transition is by opening their markets to the products of these economies. These are efforts that do not require budgets. They require political decisions, which is the real test for the resolve of the multilateral approach to the world economy.

In my own country, Israel, which is a very small economy and does not affect importantly the world economy, we were privileged in benefiting from the importation of such ideas and the vast experience that these multilateral organizations have accumulated over the years. We are a small country. Growth in the past few years, since the beginning of the decade especially, has been very robust, at about 6 percent a year in real terms. We have absorbed huge numbers of immigrants, primarily from, though not only from, the Baltic countries, Russia, and the other countries of the former Soviet Union, immigrants that, as in every case, provide important social, political, and economic challenges. And the issue was how to meet those challenges and seize the opportunity.

Today I can say that the strategy of absorption that relies primarily on the private sector, and not through bloated government, has proven to be successful. And, indeed, the unemployment rate has diminished to levels that are at the lowest for many years, around 6 percent or 6.5 percent today, after being more than 11 percent just four years ago—and all of this while maintaining control of inflation. As a matter of fact, in the past five years, inflation is about half of its level of the preceding five years. And I believe that it is fair to say that the three elements that have governed the shape of the Israeli economy today have been: first, the influx of immigrants; second, the geopolitical developments in our region; and, third, the macroeconomic and structural measures that have been facing these challenges. And here I would emphasize the budget, which was by and large a very responsible budget, with reducing the size of government and the budget deficit, monetary policy that looked at inflation, and opening up the economy through trade liberalization, financial market reform, and the like. The result has been investments that have grown on an annual basis at a rate of about 15 percent and exports that each year expanded faster than GDP.

Of course, stability has not been an integral part of our region. We all hope that stability will be restored and will indeed be reinforcing the economic processes. In the Middle East, as we all know, time is not linear, and things can happen very rapidly, and, therefore, we are all hopeful that wisdom will prevail and that determination and resolve will help us to proceed in this way.

We say we face challenges, and the challenges ahead, with the help of the advice of the International Monetary Fund and the wisdom that the World Bank has provided to us and to the entire region, are the challenges of raising domestic savings, of bringing about balance of payments that is more sustainable, of reducing the degree of indexation in our economy, and of moving ahead with the reform program. And this is one of the banners that the Israeli government with the new Finance Minister and the Prime Minister have put on their strategy, namely, globalization. Globalization is viewed as a norm—a norm that involves globalization of markets, globalization of ideas, and globalization of policymaking.

Of course, we are not users of Fund resources, but we benefit from the Fund's advice. And for this I would like to express my appreciation. Congratulations to the Managing Director for his vision and reappointment. Best wishes to President Wolfensohn for the vision and leadership of the World Bank and the contribution that these two great organizations are performing not only in the policy advice to Israel, but for the entire region that the destiny of Israel depends so much on.

I would like to use this opportunity to thank the Executive Directors, to thank the staff, to thank the Joint Secretariat, and to wish all of us continuing success.

Statement by the Governor of the Fund for Italy

Carlo Azeglio Ciampi

World Economic Outlook

World economic developments since our last meeting continue to be encouraging. Growth is accelerating in many areas, while inflation remains subdued or continues to decline. In the developing world, growth is more evenly spread and more resilient than in the past to external disturbances. In the transition economies, the progress already achieved in macroeconomic stabilization and structural change is helping the resumption of economic activity. In the industrial countries, overall growth continues, if at a moderate pace.

Among the industrial countries, improvements in the economic picture remain incomplete, as growth is not yet broadly based in Europe, where the unemployment problem has instead been exacerbated. There is, however, ground for optimism. Economic fundamentals in Europe are good, with broadly consistent exchange rates, budget deficits on the decline, and inflation near historical lows. The external environment is also quite favorable, as an acceleration of world output and growth is expected next year.

Structural unemployment remains the major challenge for Europe. It has heavy negative effects in the economic, social, and political spheres. Unemployment in our countries is due to several factors: technological change, the effects of globalization on the location of production and competition, the new organization of productive processes, and rigidities in labor markets. There are policy and institutional changes that are needed to cope with unemployment, some of which require time and sustained efforts. But we are all well aware that resumption of growth in Europe is also necessary to substantially reduce our unemployment rates. The full realization of the European Union, and of its potential, is in itself critical to increase growth and to permanently lower unemployment.

The united Europe that has been taking shape in the past few years, and that we want to strengthen through monetary unification, is an important new reality that is emerging at the global level. Greater economic and financial weight implies greater regional and global responsibilities in the economic and political domains. Europe will discharge them, keeping to its values of international cooperation, openness, and fair competition.

International capital markets have absorbed the effects of the Mexican crisis while learning some of its many lessons. The serious adjustment efforts pursued in many Latin American countries, by restoring investors' confidence, have helped stabilize financial markets. Moreover, the Fund's ability to deal with financial crises of the Mexican type is in the process of being strengthened significantly. We must take advantage of these positive developments and press forward with those adjustments and reforms at the national level and with the strengthening of our institutions to ensure that growth continues in a stable global framework.

The Roles of the IMF and the World Bank

In recent years, the Fund's surveillance has been made more timely and continuous and has been enlarged in scope and depth. The Fund's conditional support to its members performs both a direct and a catalytic role in mobilizing means of finance. In the poorest countries, its contribution is often fundamental for the resumption of growth. These important functions must be maintained and strengthened.

The smooth functioning of the capital markets, whose disciplinary role has clearly increased in recent years, can be enhanced through the improvement of the statistical information provided to the public. We are therefore very pleased by the establishment of a set of common standards, the Special Data Dissemination Standard (SDDS). The relatively large number of members, including Italy, that have already subscribed to the SDDS is above expectations. Besides the main industrial countries, the group now comprises a significant number of emerging-market economies and some economies in transition. This is of great value. We are confident that this initial group of "subscribers" will expand rapidly in the months ahead.

We consider it essential that we preserve the Fund's role and operational capabilities. This implies not only keeping the Fund's size broadly in line with that of the world economy, but also preserving its liquidity and financial resources at the levels needed to meet the ever-changing needs of its membership in both ordinary and exceptional circumstances. Although it will remain comfortable through the end of 1997, the Fund's liquidity position has gradually weakened, and in the not so distant future it could fall below safe levels. We must not allow this to happen.

We believe that an increase in overall Fund quotas is in order and that it should be agreed upon in the context of the Eleventh General Quota Review. We also continue to believe that an overall quota increase should go hand in hand with a realignment of individual quotas, to make them better reflect the members' relative weights in the world economy. The cooperative nature of the Fund requires that individual members' responsibilities and capacity to discharge them be strictly interrelated. However, a large part of the membership has seen its actual quotas depart significantly from what quotas should be, and it is now time to remedy such a situation. Given the size of the divergence problem, we cannot favor "ad hoc" solutions aimed at rectifying the positions of only a restricted group of members. On the contrary, we continue to believe that it is in the best interest of the Fund and the Bank to tackle the problem on a general basis and for the whole membership. For these reasons, we welcome the recent creation of a working group within the World Bank with the purpose of studying proposals to harmonize the capital shares of the International Bank for Reconstruction and Development (IBRD).

While the increase in the Fund's ordinary resources is necessary for it to operate under normal circumstances, the availability of adequate supplementary resources (to be called upon in exceptional situations) can provide an important safeguard in an environment where markets are global and increasingly integrated. Therefore, we welcome the New Arrangements to Borrow, which will make available supplementary resources to cope with exceptional situations posing a threat to the stability of the international monetary system. The Italian government, through the presidency of the negotiating group, has contributed to a balanced solution to the problems of representation and contribution of the new participants.

Concerning the SDR, we believe that its role in the international monetary system must not be diminished. At the same time, we remain convinced that the creation of SDRs should be determined on the basis of global liquidity needs, a condition that does not seem to be present today. On the other hand, we have long recognized that a problem of equity existed, especially for those new members that have never participated in previous allocations. We are thus ready to support a special SDR allocation aimed at addressing this specific equity problem.

Dealing with the Problems of Low-Income Countries

We fully support the Bank's and the Fund's role in assisting the poorest of our members. For this reason, we continue to support the International Development Association (IDA) within the limits set by our budgetary situation. We also favor a continuation of the Enhanced Structural Adjustment Facility (ESAF). We are thus ready to consider ways to finance the ESAF in the interim period, using both resources held by the Fund and bilateral contributions.

We also support reasonable Bank and Fund contributions to the debt initiative in favor of the low-income countries—the heavily indebted poor countries (HIPC) initiative—provided that it is restricted to a limited number of countries, namely, those where the external debt burden is clearly unsustainable in the medium term, despite serious and sustained efforts to cope with it. We are also well aware of the risk of moral hazard that exceptionally favorable debt-exit options carry within themselves.

Regarding the proposed debt initiative, about which we heard reports at the Interim and Development Committees, we would like to stress just a few points:

- First, we must recognize that concessional resources, no matter what their origin, are scarce and that the external concessional financing that can be extended to member countries is useful only as long as it brings about the policy changes necessary for establishing sound and lasting growth.
- Second, the provision of exceptionally favorable financing must be temporary in nature. If it were offered for an indefinite time, moral hazard would be enlarged instead of being circumscribed. Besides, we must recognize that the Fund has a limited role in development assistance, for which IDA remains the main avenue.

- Last, but not least, resource transfers must not be financed by the use of "core" resources. This would, sooner or later, jeopardize the financial integrity of our institutions and inevitably result in a reduction of their creditworthiness. We thus believe that the financing of the ESAF in the interim period and of any HIPC initiative must be based on a judicious use of the Bank's profits, and a blend of noncore resources held by the Fund—such as General Resources Account (GRA) resources for loans and resources from the second Special Contingent Account (SCA-2) for subsidies—plus additional contributions, as needed, from countries that wish to avoid using GRA and SCA-2 funds. Such a blend would be amply sufficient to meet the net present value of the overall financing need. The burden must, of course, be distributed as broadly and equitably as possible. The use of other Fund-held resources, particularly the core ones, should be considered as the last option, after all others have been pursued and exhausted.

Progress and Policies in Italy

Since 1992 we have made momentous headway in public finance adjustment and inflation reduction, which are the cornerstones of balanced and sustainable growth. Progress has continued in 1996, despite an adverse economic cycle. The current government will persist in these efforts and quicken their pace.

On September 27, the government adopted the 1997 Budget Law. For the goals it pursues, the size of the adjustment that it embodies, this law marks a key step forward for the future of our country. Since the beginning, the government has embraced, as its main priorities, adherence to a path of reduced inflation and fiscal consolidation consistent with the Maastricht criteria and timetable, and the reduction of the unemployment rate. These goals are mutually reinforcing—higher employment is not brought about by higher public spending, but rather by lower real interest rates, which promote private investments and lasting growth. Adherence to the economic and monetary union (EMU) convergence path is a critical factor in restoring growth and creating jobs.

These policy principles were the basis of the 1997–99 (three-year) planning document approved by the government in July. The 1997 Budget Law now implements them, and we are going ahead with our programs of privatization and deregulation of the economy. Our new budgetary target is to reach a total deficit-to-GDP ratio of 3 percent in 1997. Compared with 1996, the budget law will determine the ways to reduce the deficit by about 3 percentage points of GDP. About three-fifths of this reduction will occur as a direct result of the measures already detailed in the budget draft approved recently, while the other two-fifths remains to be itemized by the end of the year. The primary surplus will be about 6 percent of GDP.

The measures already specified combine expenditure cuts of about $17 billion and revenue increases of $8 billion. The cuts are concentrated on central and local government expenditures. They are connected with the reform of the public administration and of the budget already approved by the government, and are aimed at increasing the efficiency and decentralization of the public sector. Health and social security expenditures have also been reduced, together with transfers to public utilities. The increases in revenue come mostly from the elimination of a number of tax deductions and from anti-evasion and anti-erosion measures.

Before the end of the year, further measures equivalent to $17 billion will be introduced. These additional budget savings will be based largely on a onetime increase in income taxes, on top of the other budget deficit reduction efforts, which will continue as planned in 1998. An integral part of our budget adjustment is a substantial package of measures aimed at increasing employment, especially in the south of Italy.

With this action, our budget will be, and will remain, in order. The structural causes of inflation will have been eradicated by the long-established and widely agreed income policies; a stability-oriented monetary policy consistently followed by an independent central bank; and the completion of controlling public expenditure.

Markets reacted favorably to the preparation and presentation of the 1997 budget. Interest rate spreads over our relevant benchmarks narrowed by over 50 basis points in less than a week. Significantly lower nominal and real rates are now in sight. Interest rate reduction may prove to be an important part of our convergence effort, although our quantitative objectives are not predicated on such an occurrence. Reduced interest expenditure from lower rates would therefore constitute additional savings to those already envisaged in the budget.

I am fully aware that my country is undertaking an extraordinary effort, but equally extraordinary are the motivations. The economic motivations lie in the will to fight budget deficits and to increase employment. The political motivations are the same as those that guided Italy to be one of the founding members of the European Economic Community almost 40 years ago. We intend to be among the founders of the EMU in 1999.

But even more important are our ethical motivations. Our participation in the EMU on January 1, 1999 will represent the final accomplishment of a long, painful, and cathartic process that Italy has undergone since 1992. It will represent the crowning event of the peaceful revolution that is deeply changing our country. Italy will by then be ready to be an active member of the EU, one of stability and growth that was designed at Maastricht, and that will be achieved.

Statement by the Governor of the Fund and the Bank for Japan

Wataru Kubo

Introduction

May I begin by saying what a pleasure it is for me to be able to address the Fifty-First Annual Meetings of the International Monetary Fund and the World Bank Group.

Before turning to my remarks on policy, I'd like to extend a warm welcome to Bosnia and Herzegovina, which joined the Fund and the Bank as an independent nation after last year's meeting. I am sure we all welcome the increased support of both institutions and member countries for a nation attempting to recover from the ravages of war, as evidenced by the recent democratic elections. May I also take this opportunity to express our congratulations to the IMF Managing Director, Mr. Camdessus, for his reelection in May, and best wishes to both the Fund and the Bank.

State of the World Economy and Policy Coordination

I want to begin by reviewing the state of the global economy. I think we can agree that it hit bottom in 1991 and that since then it has seen a steady recovery. This is the result of the continued efforts of our member nations, despite their own political and economic difficulties, to pursue a disciplined macroeconomic policy and to promote market-oriented economic reforms. It is vital that we promote economic structural reforms still further.

In order to sustain noninflationary growth, the industrial nations are working to reduce fiscal deficits, stabilize prices, and achieve structural reform. Clearly, the biggest challenge is the reduction of fiscal deficits. Without this, the vitality of the private sector will be undermined and the world's savings will be put at risk.

Developing countries on the whole are enjoying high economic growth. This trend is particularly evident in the emerging economies, whose influence on the world economy as a whole is therefore considerable. Ideally, these emerging economies will contribute to sustainable global growth while guarding against domestic overheating.

Now to the Japanese economy. A steady increase in private demand has encouraged recovery. Among the positive signs are a rise in private consumption, private sector investment in plants and equipment, and housing construction. In the monetary area, the relaxed monetary policy stance remains unchanged, as evidenced by the current official discount rate of

0.5 percent, which is an all-time low. For its part, the government of Japan is determined to oversee the implementation of the budget for FY 1996 while addressing the problem of nonperforming loans as quickly as possible. We believe this will further the momentum and the sustainability of recovery. Monetary policy will remain accommodating and responsive closely watching the economic situation at home and abroad, including the state of the financial markets.

With Japan's recovery clearly in place, I believe it is timely for us to look ahead to the next century, to consider what must be done to address the economic challenges. Our foremost challenge is to tackle structural fiscal reform. Japan's fiscal situation is the worst among the industrial nations and, indeed, is at something of a crisis point. We face an unprecedented wave of population aging and, with it, an enormous burden on the people. Reform of Japan's fiscal structure is imperative. The major responsibility of this generation is to limit the burden we pass on to our children and to secure a bright future for generations still to come.

We must also take into account the ongoing integration of the world's financial markets—something that I feel sure will continue into the next century. Japan is committed to making our financial and capital markets more liberalized and more efficient, while ensuring the stability and transparency of our financial systems.

Redefining Rights and Responsibilities in the International Monetary System

Until almost a quarter of a century ago, the world economy and international trade were supported by the postwar exchange rate system. When that collapsed, we were launched on an uncharted voyage. Since then, we have experienced extraordinary changes in the world economy. There has been a dramatic increase in the volume of international capital transfer. Increasingly integrated financial markets have created new financial products one after another. There has been regional integration, such as with the European Union and other such blocs. And the emerging economies have started to play a key role in the international economy.

This has meant a considerable expansion of the world economy and trade. But you could argue that it has also resulted in the heightened risk that a financial crisis in one market may have an immediate and contagious effect on other markets. Similarly, you might point out that exchange rates are now subject to abrupt fluctuations. To minimize the risks, while promoting policy coordination among the industrial nations and close cooperation in exchange markets, we have a number of mechanisms, for example, cooperation among regulatory and supervisory authorities and better settlement systems.

I hope you will agree that the capacity to cope with varied risks in the international financial markets must be strengthened even further. To that end, it is essential that we collaborate with the new players in the international economy, to redefine both rights and responsibilities so that we can better manage the international monetary system while promoting international policy coordination even further.

It is in this context that I particularly welcome the fact that the Group of Ten countries, along with new players in the international economy, had a hand in creating the New Arrangements to Borrow (NAB). Japan also strongly supports the call for the earliest possible quota increase under the Eleventh General Review of Quotas in a way that reflects the relative position of each member in the world economy by fully respecting the wish of many emerging economies to minimize the gap between calculated and actual quota shares. Additionally, due attention should be paid to the fact that many new members of the Fund have not been allocated special drawing rights (SDRs). This is an inequity that must be addressed, and I call on member nations to redouble our efforts so that a final agreement will be reached by the time of the Interim Committee meeting next spring.

Both the quota increase under the Eleventh General Review of Quotas and the allocation of SDRs are challenges that must be addressed to redefine our rights and responsibilities in a new environment characterized by emerging economies as well as by economies in transition. In this respect, I believe that dealing with both issues simultaneously and as a package will make more sense and will also allow members to win support at home more easily.

The stabilization of exchange rates, at the same time, is of global concern: it is no longer of interest simply to the industrial nations. It follows, then, that policy coordination and cooperation in exchange markets since the Plaza Accord are no longer limited to the industrial nations. The emerging economies of Asia and other developing countries must also have a voice. It is in this context that the monetary authorities in Japan have strengthened collaboration with their counterparts in the Asia and Pacific region. The foreign exchange reserves of the Asian nations amount to almost 40 percent of the world's total foreign exchange reserves. It is therefore of great significance to the global economy that this region is working toward a framework to maintain exchange rate stability and that it is doing so through meetings of the APEC Finance Ministers and cooperation among monetary authorities in the Asia and Pacific region. Naturally, Fund surveillance capability could, and indeed should, play a part in such a regional framework.

Let us not forget that the statistical capability of developing nations must also be enhanced so that they can subscribe to the Special Data Dissemination Standard. This is why, when considering requests for the use of the Japan Administered Technical Assistance Account with the Fund, it is hoped that priority will be given to projects intended to enhance the authorities' statistical capability.

Support for Developing Countries

Let me now move on to outline Japan's views on assistance to developing countries. Today, one cannot categorize the situation of developing countries by using just one uniform characteristic. The emerging economies, the poorest countries, the postconflict countries, and the transition countries are all facing different tasks. Hence, development strategy should be tailored to the specific circumstances of a given country while fully drawing on the experiences and lessons we have learned in other regions. To allow us to respond in this way, we must study a variety of development experiences, exchange views on them, and share the knowledge. This is an essential process, yet it is still in its initial stage. Japan, together with other countries, would like to make a greater contribution in this regard. We can transfer our experience of postwar reconstruction and high economic growth; we can also help systemize the east Asian economies' growth experiences.

In recent years, the industrial nations have faced their own financial difficulties. Consequently, development assistance has leveled off. It is therefore all the more necessary to ensure an even more efficient use of assistance. It is to be hoped, especially, that the multilateral development banks will continue their efforts at reform based on the March Report of the Development Committee Task Force on Multilateral Development Banks. It is also essential that the emerging economies, these new players in the international economy, join the donor community. I would also like to take this opportunity to thank you for supporting Japan's share increase at the Governors' vote last June. We are determined to make contributions commensurate with our increased share.

A few remarks now on the poorest countries. Reducing poverty in these countries and integrating their economies into the world economy are a major challenge that must be addressed. The prioritized distribution of assistance must be continued. With this in mind, and despite the severe domestic financial situation, Japan has made active contributions to both the eleventh replenishment of the International Development Association and the seventh replenishment of the African Development Fund. I hope most sincerely for the steady implementation of these two agreements. I also hope that the current negotiations on the sixth replenishment of the Asian Development Fund will reach agreement as early as possible and on a level sufficient to address such major challenges as the fight against poverty in Asia, as well as environmental destruction. Hand in hand with this, it is vitally important that the Enhanced Structural Adjustment Facility (ESAF), the Fund's core instrument of assistance for the poorest countries, continue. Japan is ready to make active bilateral contributions in line with the other industrial countries.

With regard to the problems of heavily indebted poor countries (HIPCs), it is vital that the IMF, the World Bank, and other international financial institutions make the most effective contributions. I welcome President Wolfensohn's willingness to make a contribution. Japan joins the intention of the Paris Club to go beyond the Naples terms, up to 80 percent, after confirming significant progress made at the international financial institutions. This action will be applied on a case-by-case basis, for a limited number of countries that successfully complete their HIPC programs with stronger modalities.

Turning to postconflict countries, Japan will continue to support their reconstruction through the Japan Special Fund of the Bank.

Finally, a few words on the emerging economies. For those economies, primarily in Asia and Latin America, to maintain steady growth, the public sector will continue to play an important role. It is equally important, however, to draw on the vitality of the private sector. To ensure an adequate flow of private capital and to meet the huge demand for financial resources for developing infrastructure, the World Bank Group must take full advantage of its catalytic and advisory functions to help recipient countries improve their capital markets, as well as their accounting and legal systems.

For its part, Japan will continue to be active in providing technical assistance by making the most of the Japan Special Fund in the Bank and the International Finance Corporation (IFC). We would also encourage the World Bank Group to further strengthen the functions of the IFC and the Multilateral Investment Guarantee Agency (MIGA). In this context, I would encourage the World Bank, the IFC, and MIGA to start developing how they might better contribute to the promotion of private capital flows for infrastructure development in these emerging economies. I hope that the World Bank Group will report on its achievements to the next Annual Meetings to be held in Hong Kong.

Conclusion

A quarter of a century ago, the whole world was launched on an uncharted voyage, puzzled and concerned. At the time, and from this very podium, Japan's Minister of Finance, Mikio Mizuta, called for closer international cooperation. Allow me to quote from a statement he made on September 28, 1971: "The greater the difficulties lying ahead of us the stronger the need for closer cooperation. I strongly urge that all of us do our utmost to contribute to forming a solid common front to overcome the crisis."

During the 25 years that have followed, the world economy has been increasingly integrated, and the emerging economies have become the key engine for the growth of the world economy.

Today, we are faced with the impending new millennium, and the need for cooperation is far greater than it ever was. Today, everyone, not simply the industrial nations but also the emerging economies and other new players in the international economy, must join hands in redefining our rights and responsibilities to ensure better management of the international monetary system and sustainable growth, while strengthening international cooperation even further.

I strongly hope that the Fund and the Bank will continue to remain at the heart of such international cooperation, thus ensuring that future generations inherit a vital world economy.

Statement by the Governor of the Fund and the Bank for Korea

Seung-Soo Han

I am very pleased to take this opportunity, on behalf of the Korean government, to address the Fifty-First Annual Meetings of the International Monetary Fund and the World Bank. In their opening remarks, the Managing Director of the Fund and the President of the Bank have shown a keen awareness of the imperatives of global economic change. I would like to join my fellow Governors in commending them for their dedicated and enlightened leadership in preparing to deal with these challenges.

The world economic order has changed substantially since the establishment of the Bretton Woods institutions half a century ago. During this period, Korea has achieved a remarkable level of economic maturity. Once one of the world's poorest countries, Korea managed to transform its simple agrarian economy into an industrial economy within a short span of time.

In the process, Korea has benefited greatly from the resources and expertise provided by the Bretton Woods institutions, for which we are grateful. The Korean people have come to recognize our country's increasing responsibilities to the global economy. During the past three and a half years, the Korean government has been implementing a bold strategy in response to Korea's new place in the globalizing world.

Termed *segyehwa* in Korean, or globalization in English, this concept extends well beyond conventional economic liberalization. Indeed, its broader purpose is to fully integrate Korea into the emerging global civilization of the twenty-first century. In this spirit, Korea will continue to contribute to the efforts of the Fund and the Bank to address the challenges currently facing the world economy and to prepare for their enhanced roles in the twenty-first century.

Policy Directions for the IMF and World Bank

Continued Efforts to Safeguard the International Monetary System

In the aftermath of the financial upheaval in early 1995, the world financial market stabilized rather quickly, owing to extensive international cooperation and the activities of the IMF. However, we share the view that the possibility remains for similar disturbances in the world financial market. Thus, the IMF should continue to implement a comprehensive strategy to avoid potential risks in the integrated world financial market.

For instance, the IMF needs to extend technical assistance to help member countries subscribe to the Special Data Dissemination Standard (SDDS) by the end of 1998. In addition, the IMF should develop an efficient operational plan for the SDDS to function as a key component of the early warning system.

As for managing any future financial crisis, remarkable progress has been made in reinforcing the Fund's resource base through the successful creation of the New Arrangements to Borrow (NAB). The Group of Ten countries and the new participants deserve much credit for their farsighted efforts, which made this important initiative possible.

However, the fundamental task of enlarging quotas in the Fund has not progressed as much as we would have expected. I would like to remind you of two of the key principles that had been agreed in the earlier stages of the discussion on creating the NAB. First, the IMF should remain a quota-based institution. Thus, enlarging the borrowing facility should not be a substitute for a quota increase. Second, the quota structure should better reflect the changes in the economic map of the global economy. Toward this end, the Eleventh General Review of Quotas should include an ad hoc increase for member countries that have a significant gap between their calculated and actual quotas. In this regard, we welcome the Interim Committee's call for an early conclusion of the eleventh review. I urge the major shareholders of the Fund to expedite the progress of the Eleventh General Review of Quotas in the same cooperative spirit demonstrated in making the NAB.

Increased International Cooperation in Helping Heavily Indebted Poor Countries (HIPCs)

There are still more than 1.3 billion people in the world trying to live on less than $1 a day, and despite their best efforts as well as the aid from the multilateral development banks (MDBs), the HIPCs have not substantially improved their situation, mainly owing to the heavy burden of their external debts. In this regard, we believe that the initiative jointly taken by the Bretton Woods institutions to ease the debt burden of the HIPCs was very timely. We welcome the major progress made in the initiative and support close and extensive consultation with all interested parties to resolve the remaining concerns.

Korea and the Bretton Woods Institutions

As Korea has now been transformed from a recipient to a donor country, it is time to review and rethink the relationship between Korea and the Bretton Woods institutions. I believe that the MDBs should aim to work out development strategies relevant to their client countries. They should enlarge nonlending services as well as lending services.

To contribute to the enlargement of the Bank's nonlending services, the Korean government will substantially replenish the Korea Consultant Trust Fund, in response to President Wolfensohn's call. Those funds will be used to transfer Korea's experience and know-how in development to other member countries to expedite their development process. This fund will also be used to promote cooperation by exchanging experts between Korea and the Bank.

Moreover, as Korea is moving steadily forward in its bid to become the twenty-ninth member of the Organization for Economic Cooperation and Development (OECD), we are striving to adapt our economic systems, including our financial market, labor market, and environmental regulations to the norms and standards expected of industrialized nations.

The Korean government wishes to contribute to the world economy by actively participating in all aspects of international cooperation in keeping with the globalization drive. In fact, the Korean government has already made significant efforts in this direction.

For instance, we have contributed to the International Development Association (IDA) Replenishment and the Enhanced Structural Adjustment Facility (ESAF). We have also actively participated in creating the NAB and in the establishment of the Middle East and North Africa Development Bank as a founding member. Just recently, we have decided to join the Central American Bank for Economic Integration, and we have increased our donations to many regional development institutions.

I would like to seek the support of the member countries for Korea to play an even greater role in contributing to the betterment of the world economy as a new donor country and a country with a unique development experience.

Concluding Remarks

As we all know, the world economy is being integrated at a pace and in a way never experienced before. The technological advance in communications and the coming of an information age will serve to accelerate the integration of the global economy in the twenty-first century.

In this new environment, the IMF and the World Bank will continue to be just as important to global economic prosperity and stability as they were in the immediate post-World War II years, if not more so. That is assuming, of course, that they continue to adapt creatively, and in a timely manner, to changing circumstances.

Today, I have sought to emphasize Korea's determination to contribute, as best we can, to the global efforts toward free trade and multilateralism in the spirit of economic cooperation. This is the basic rationale for our participation in the Fund and the Bank and the foundation of our commitment to these two great institutions.

In closing, I would like to express my gratitude to the Joint Secretariat for its excellent preparatory work, which has done so much to ensure the success of these meetings.

STATEMENT BY THE GOVERNOR OF THE BANK FOR THE LAO PEOPLE'S DEMOCRATIC REPUBLIC

Xaysomphone Phomvihane

The delegation of the Lao People's Democratic Republic is very pleased and honored to represent the government of the Lao People's Democratic Republic at these Annual Meetings of Governors of the World Bank and the International Monetary Fund. I wish to join other distinguished Governors in congratulating the chairman of these meetings, the management of the World Bank Group, the Managing Director of the Fund, and the Governors and delegates of all member countries.

The delegation also congratulates James D. Wolfensohn, the President of the World Bank, and Michel Camdessus, the Managing Director of the Fund, for their valuable efforts in contributing to the development of member countries. We wish the President, the Managing Director, and their management teams well in continuing their well-expounded and widely publicized objective of reducing poverty in developing countries.

In 1996, world economic growth on average has continued at a satisfactory rate, and Asia achieved a growth rate of more than twice that of any other developing region. The year 1996 also posed big challenges for the transition economies as well as new opportunities for development, cooperation, and integration with the world economy.

We welcome the continued acceleration over the past decade in the pace of global integration and the widening and intensification of international linkages in trade and finance. Moreover, we welcome the framework for action, discussed by the Development and Interim Committees at their spring meetings, for resolving the debt problems of the heavily indebted poor countries (HIPCs).

We welcome the decision to expand the currency choice of loan products, which allows greater flexibility for borrowers in managing their own currency risks. As a development institution, the World Bank should constantly aim at minimizing the cost of borrowing for its members.

As for the Lao People's Democratic Republic, the real economy performed quite well in 1996, with overall real GDP growth of 7.1 percent. However, we faced difficulties in many areas. In mid-1995, our country experienced severe floods that caused great losses of cultivated crops and basic infrastructure, and worsened the situation with respect to poverty. On the other hand, there was a sharp increase in aggregate demand owing to macroeconomic imbalances.

The government responded to these adverse developments through tightened financial policies, the implementation of which restored overall macroeconomic stability.

In the first quarter of 1996, two important events occurred in the political life of the multiethnic Lao people: the Sixth Congress of the Lao People's Revolutionary Party and the Eighth Plenary Session of the National Assembly (Third Legislature). Both of these events have reaffirmed the strong determination of our government in pursuing our renovation policy, accelerating the economy's transformation to a more market-oriented system while maintaining sustainable economic growth, and steadily leading the country into the twenty-first century. In particular, our government will resolutely continue the implementation of our socioeconomic development plan up to the year 2000, especially the eight priority programs aimed at fully exploiting natural resources and using new technology and successful economic experiences for the socioeconomic development of the country, while linking development with the protection of the environment. On the other hand, the main focus of the strategy of macroeconomic management will be on containing inflationary pressures and current account deficits, while sustaining structural reforms, mainly to control public expenditures, broaden the revenue base, and improve the balance of payments position.

One of the important factors contributing to the success of the country's socioeconomic and development plan is the continued and increased support of the international community, including bilateral and multilateral donors, the international financial institutions—in particular, the World

Bank Group, the International Monetary Fund, and the Asian Development Bank, and nongovernmental organizations. The government of the Lao People's Democratic Republic highly appreciates the catalytic role of the World Bank and the Fund in promoting and facilitating the process of cooperation and economic development, such as the third structural adjustment credit and the Enhanced Structural Adjustment Facility (ESAF). As one of the world's poorest economies, the Lao People's Democratic Republic continues to need financial assistance on concessional terms to avoid debt-servicing problems. In this connection, we place utmost importance on the ESAF and on the World Bank's structural adjustment loan, which have made a major contribution to the success of the Lao People's Democratic Republic in its economic reform efforts. We therefore welcome the progress the IMF has made toward financing a continuation of ESAF and participating in the HIPC initiative. To this end, we strongly believe that some gold sales will be necessary as part of the optimization of the IMF's reserve holdings. Furthermore, we maintain that the self-sustained ESAF should be financed jointly by bilateral contributions and returns on the investment of proceeds from gold sales.

On behalf of the Lao government, I would like to express its sincere thanks to the financial institutions and the friendly countries for their valuable support. We hope that they will increase their financial support for the growing investment in our country, thus helping the Lao People's Democratic Republic to overcome its status as a least-developed country in a short period of time, to upgrade its economic conditions, and to join the Association of Southeast Asian Nations (ASEAN) in the near future.

We not only need to conclude negotiations for the eleventh replenishment of the International Development Association (IDA-11) at an early date, but also we need to ensure that the size of IDA-11 will not be reduced. Otherwise, the Bank will not be able to play its role in contributing to the development of its member countries. Therefore, we wish to urge that adequate concessional funding be made available for countries pursuing economic reforms and, at the same time, we appeal to the donors to increase their contributions.

For our part, the government of the Lao People's Democratic Republic will mobilize and promote all economic sectors, attaching great importance to the private sector, and will create favorable conditions for foreign investment. Meanwhile, together with other countries, we will help make our region peaceful, stable, and more prosperous. By implementing a consistent policy of expanding foreign economic relations, we believe that international institutions and other donor countries will continue and increase cooperation in providing grants, concessional loans, and technical assistance; promoting private investment; and creating opportunities in trade relations with our countries. To conclude, we would like to offer our best wishes for the success of these meetings.

Statement by the Alternate Governor of the Bank for the Republic of Latvia

Guntars Krasts

On behalf of the Governors for Estonia, Latvia, and Lithuania, I am pleased to inform you that last year our cooperation with the World Bank was further strengthened with three projects already completed and another 17 under implementation in all three Baltic states. Our governments highly appreciate this cooperation and look forward to a further deepening of cooperation in the future. We are aware that the economic restructuring currently under way in our countries is a long-term effort, and access to long-term financing by the World Bank is thus a key component for its success. I am also pleased to note that, according to the World Bank, of all agricultural projects granted, the one to Latvia has been the most successful. In this connection, the Latvian government intends to transform the current Agricultural Development Project into a Rural Development Project.

The process of political and economic transition in the Baltic countries is now irreversible. Macroeconomic stabilization efforts and structural reforms of recent years have laid the foundations and created the institutions necessary for the functioning of a market economy. The private sector now generates over 60 percent of the output in our countries.

During 1995–96, Estonia has made further progress toward becoming a modern market economy. Growth increased to 3.2 percent in 1995 and an estimated 3 percent to 5 percent in 1996, while inflation declined from almost 50 percent in 1994 to 29 percent in 1995, and 22 percent is projected in 1996. Structural reforms were accelerated, particularly in the area of privatization of medium- and large-scale enterprises and housing. The regulatory environment for the domestic banking system was further improved, and the government continued to maintain a very open trade regime.

The Latvian economy has recovered quickly from the banking crisis of 1995; after falling in 1995, output grew by 1.5 percent in the first half of 1996 compared with the corresponding period of 1995. For the first time since Latvia regained independence, the rate of inflation has fallen below 18 percent. Significant progress has also been made in the area of fiscal consolidation: the deficit in 1996 is expected to be below the budget target of LVL 40 million, while the government has recently submitted to parliament a draft budget for 1997 with a zero deficit. Finally, the beginning of this year has marked a sharp turning point in our privatization policy; all large companies, including the main utilities, are now to be privatized. We expect that by the end of 1997 this effort will be concluded, leaving nearly all enterprises in Latvia in private sector hands.

Lithuania has registered an accelerating economic growth in 1994/95. After growing by 3.1 percent in 1995, real GDP is, despite far-reaching restructuring in the financial sector, estimated to grow by 4.5 percent this year, while the inflation rate has further declined from 36 percent in 1995 to a projected 20 percent in 1996. Lithuania has embarked on the second stage of privatization for cash, and the government is now moving toward further liberalization of the land market, notably allowing foreigners to own land. The interest rates on government T-bills has decreased significantly as a result of macroeconomic stabilization. The credibility of Lithuania was officially recognized by the granting of a positive international credit rating, which paves the way to international capital markets.

The most important strategic goal for our countries is economic integration with Europe and accession to the European Union. We consider this fundamental for our security and for consolidating our ties to the West. At the same time, the geographic position of the Baltic countries enables us to be an important trade link between East and West. This requires upgrading the physical infrastructure in order to create an effective transport corridor, both east-west and north-south, and integrating it with a common European transport system; as well as eliminating barriers to the flow of goods, services, and capital between the Baltic countries. This is a tall order, but we have started taking important steps in this direction. In this connection, it should be noted that in the Baltic countries, just as in all other economies in transition, considerable benefits can be derived from foreign direct investment. This is, therefore, one of the chief economic objectives of our governments.

On behalf of the Governors for Estonia, Latvia, and Lithuania, I am looking forward to further fruitful cooperation with the World Bank, which will help us achieve an orderly and successful transition, and realize our long-term economic objectives.

STATEMENT BY THE GOVERNOR OF THE BANK FOR THE SOCIALIST PEOPLE'S LIBYAN ARAB JAMAHIRIYA

Mohamed A. Bait Elmal

I am very pleased to address you on behalf of the Governors of the Arab member states of the International Monetary Fund and the World Bank. I would like to begin by congratulating you on being selected to chair the Board of Governors this year, and by congratulating Mr. Camdessus on his reappointment to a third term as Managing Director of the Fund. I would also like to welcome Bosnia and Herzegovina as a new member of our institutions.

We have seen a number of encouraging developments in the world economy, including a significant reduction in rates of inflation, which have provided a favorable environment for continued growth of the global economy at reasonable rates. As these encouraging developments follow the unfavorable conditions that characterized world financial markets last year subsequent to the Mexican financial crisis, we commend the effective role of the IMF and the World Bank in containing that crisis and limiting its negative effects on world financial markets. We would also like to express our appreciation of the effective role of the Bank and the Fund in meeting the challenges resulting from the fundamental changes that have taken place in the world economy, and their valuable participation in helping countries meet these challenges by monitoring economic developments and providing financial assistance and technical advice.

In view of the generally encouraging prospects of world economic developments, I would like to call your attention to the fundamental role of economic growth in developing countries in supporting global economic growth, and to the sustained efforts of these countries, including the Arab countries, to continue the process of economic reform that has strengthened their material and human resources and improved their growth rates. The positive developments taking place in the developing economies encourage us to call on the developing and transition countries to redouble their efforts at reform, in order to ensure continued and sustainable improvement in their economic performance. Naturally, the success of the economic reform efforts in these countries is largely dependent on improved opportunities for marketing their exports to the industrial countries. Once again we would like to express our hope that the industrial countries will refrain from adopting any policies or taking any protective measures aimed at pursuing unjust goals.

Most of the industrial countries have been successful in reducing their budget deficits and maintaining lower inflation and interest rates, and this has had a significant positive effect on the world economy. But the slowdown of economic growth in the industrial countries, together with the continued need to further reduce their budget deficits, has made it necessary for the governments of these countries to adopt appropriate fiscal policies, which, in turn, affect economic growth, exchange and interest rates, and patterns of trade in the rest of the world. We hope the IMF will continue to encourage the industrial countries that control the principal traded currencies to coordinate their policies and make them more transparent. At the same time, we are concerned about the high rates of unemployment in most of the European countries.

The continuous growth in international commercial and financial exchanges has been accompanied by a brisk trend of capital flows to an increasing number of countries. While we welcome the increased openness of financial markets, we also note that fluctuations in capital flows have had a considerable negative effect on the banking system in both developing and industrial countries. The banking sector in these countries must be strengthened and economic policies must be adopted to control these fluctuations and allow the flow of capital to play an effective role in economic development.

In view of the increased globalization of the economy and the continuous expansion of economic exchanges between countries, we must strive to enhance the Fund's ability to meet the challenge of these global economic developments. The IMF must have sufficient financial resources to carry out its role of financing economic reform and transition programs in an effective manner, to deal with financial crises and emergencies that affect the global economy. We must, first and foremost, ensure that the Fund's resources are adequate. We look forward to the Eleventh General Review of Quotas of IMF members and wish to stress that any increase in quotas must be based on the principle of equitable increases for all members. We must avoid at all costs any distribution of increases that would reduce the ratio of developing countries' quotas to the total quotas of all members, to prevent the marginalization of the role of these countries.

We attach particular importance to ensuring the adequacy of the Fund's own resources, thus enabling it both to carry out its traditional functions and respond to unforeseen emergencies. We also consider it crucial to provide the Fund with additional resources that will enable it to respond rapidly, when required, to requests for exceptional financing. We welcome the New Arrangements to Borrow, which are expected to be finalized shortly, and which constitute an important and necessary addition to the Fund's exceptional resources.

We strongly support your efforts to ensure the continuation of the Enhanced Structural Adjustment Facility (ESAF) activities, which will allow the IMF to continue providing concessional loans to low-income member countries and to help solve the problems of heavily indebted poor countries. There is no doubt that these arrangements have a fundamental role in supporting the economic reform policies of these countries. In reality, the resources required to finance ESAF activities are very small when compared to their enormous impact on economic growth in these countries. We applaud the agreement recently reached by the members of the Paris Club concerning debt relief for poor countries, and we hope that a final agreement can be reached in the near future on continuation of the ESAF, that will include the use of a small portion of the Fund's gold reserves for this vital purpose.

Our continued conviction of the need to increase international reserves leads us to call once again for a new allocation of special drawing rights (SDRs). We would still prefer a general allocation, in accordance with the Fund's Articles of Agreement, and consider it the best way to carry out a new allocation of SDRs. However, in order to ensure the fair distribution of SDRs among members, we are prepared to support a new allocation that would result in a unified ratio of accumulated allocations for all members. Nevertheless, we believe that the principle of general allocations should remain the basis for future allocations of SDRs.

I shall now move on to a number of issues related to the World Bank. We are pleased to note the expanded activities carried out by the World Bank Group over the past year and the efforts expended to improve performance standards in the planning and implementation of projects. We note in particular the expanded activities of the International Development Association (IDA), the International Finance Corporation (IFC), and the Multilateral Investment Guarantee Agency (MIGA). Although the World Bank increased somewhat its real expenditures on projects, we regret to learn that over the past year it has reduced its commitments to heavily indebted countries. We hope that the poor countries of Africa will receive the attention they require to help them stimulate their economies and improve their social conditions.

We also welcome the expanded activities carried out by the Bank and IDA in the Arab world during the past year after their activities in the region had been greatly reduced for a number of years, and we applaud the Bank's role in helping to reconstruct Gaza, the West Bank, and Lebanon. We urge the donor countries to fulfill their commitments promptly, thus helping to achieve the goals of reconstruction and stability. And we ask the World Bank and the IMF to expand the technical and financial assistance they provide to individual countries and regional institutions in the Arab world.

We support the continued efforts of the World Bank Group to provide debt relief to developing countries, and we endorse the increase in social development projects and assistance aimed at helping countries plan their transition to greater reliance on the private sector. However, we feel that additional support is needed to reduce the negative social effects of reform programs, especially for low-income sectors of the population.

We also support the World Bank Group's determination to place greater emphasis on project quality and the ability to achieve development objectives. We approve of the goals that the Bank's management hopes to achieve through changes in work methods and administrative structure. We hope that these changes will produce tangible results; that they will help the Bank respond appropriately to the particular circumstances of each country, simplify the complicated procedures for granting loans and credits, improve implementation, and shorten the period of time required. At the same time, we hope that these trends will not overshadow the need to increase the size of loans and credits, especially given the fact that the developing countries are still suffering from the steady decline in official assistance from the main donor countries.

We applaud the World Bank's role in developing and monitoring the debt-relief initiative for a number of poor countries, and its willingness to allocate US$500 million for this purpose. While we are pleased with the prospects for implementing this initiative, we feel that the Paris Club countries should assume greater responsibility to avoid placing the brunt of the burden on the World Bank Group and other international institutions, which we agree must maintain their financial positions. It should also be mentioned that many other developing countries that have not met the conditions of the debt-relief initiative are still suffering from the burden of indebtedness, which consumes a large share of their resources, including foreign assistance. A high degree of flexibility is required in addressing the indebtedness of these countries.

I would like to conclude my remarks by drawing your attention to the continued efforts made by the Arab countries to reform the various sectors of their economies, and to the improved economic performance resulting from these efforts. Yet at the same time, we are fully aware of the important challenge we face, to persevere in our reform efforts and help our countries move forward on the path to development. I would also like to draw your attention to the large amounts of financial assistance provided by the Arab petroleum exporting countries to many developing countries. As a percentage of their GDP, these countries give the highest amount of assistance among all the donor countries, despite the austerity measures they have incorporated into their fiscal policies.

While on the subject of the Arab world, I feel I must avail myself of this forum to invite the international community to fulfill their responsibilities by insisting that Israel end the suffering of the Palestinian people and remove the obstacles preventing them from exercising their legitimate rights and developing their economy. We appeal to donor countries and international financial institutions alike to assist the Palestinian people by increasing their support and helping the Palestinian National Authority raise the standard of living and build the infrastructure required in the autonomous regions.

Further on the subject of our region, I would like to remind you that the economy of the great Socialist People's Libyan Arab Jamahiriya has suffered for a number of years from sanctions and other restrictions imposed upon it. We request that these decisions be reviewed objectively, in accordance with the Articles of Agreement of the international financial institutions, in order to facilitate the flow of funds and relieve the suffering of the Libyan people.

STATEMENT BY THE GOVERNOR OF THE FUND AND THE BANK FOR MALAYSIA

Dato' Seri Anwar bin Ibrahim

We are all optimistic that the world economy will continue to grow in the coming years. This has encouraged more countries to liberalize their trading systems to meet the requirements of the World Trade Organization. This will lead to further dismantling of trade barriers. International resources will be more efficiently allocated and wider opportunities for investments made available.

Though we cannot overemphasize the beneficial effects of this trade globalization, we must be wary too of the pitfalls. As market forces will be the main determinant of economic endeavors, the richer countries will have the upper hand in making the most of this at the expense of the less-developed and weaker economies. The more powerful economies will gain firm control on strategic industries and acquire a further competitive edge in all economic and noneconomic endeavors, while the weaker ones continue to be marginalized.

It is therefore imperative that a meaningful partnership be forged between the developed and developing countries to ensure a more equitable socioeconomic distribution of the wealth and opportunities that are to be generated from this globalization. As the world trade scenario continues to evolve as a result of this trend of liberalization, we would want to see the gap between the richer and the poorer countries being progressively reduced.

The *World Economic Outlook* has forecast good growth prospects for developing countries. But the fruits of the harvest may be denied to a larger sector of the world's population due to the unsustainable debt burden of many developing countries. It is even more unfortunate that despite continuous economic adjustment efforts, growth in heavily indebted poor countries (HIPCs) is still retarded. This is because HIPCs are diverting resources toward debt repayment, making it almost impossible to expend capital on infrastructure and education. Experiences in many countries have proven that external assistance to relieve repayments was crucial for the undivided pursuit of economic policies to promote growth.

We are relieved that the IMF has decided on the modalities to finance the Enhanced Structural Adjustment Facility (ESAF). Although the understanding reached is less than desired, it nevertheless will enable the Fund to participate in the HIPC initiative. The debt relief will ensure a better chance of success for IMF programs and lead to sustainable growth over the medium and long term. But this can only happen if debt relief is comprehensive and substantial. The Fund must expedite efforts to ensure adequate resources for a self-sustaining ESAF. Bilateral contributions cannot be the only funding source. Eventually the Fund must optimize the management of its reserves, including the sale of some of its gold, to ensure growth with economic stability in member countries. More concerted efforts in this direction are necessary to change the perception in the developing world that the Fund is out to impose unfair social costs in its adjustment programs and is responsible for the economic hardship in many poor countries.

We are concerned that over the past few years the Fund has tended to apply different standards in its treatment of member countries. The Executive Board must not be a mechanism to pressure member countries to acquiesce to demands on noneconomic matters by denying the rights of members to the Fund's financial and technical assistance. Difficult as it may be, the Fund must ensure that its decisions and recommendations are based purely on economic considerations. This is necessary to restore the credibility of the Fund as an institution that is committed to assisting the poor countries and improving their economic management to create growth and employment.

Malaysia, for its part, is prepared to assist and cooperate with the Fund. We have supported the Fund's effort to improve surveillance via greater transparency of data. Despite problems and limited resources, Malaysia has subscribed to the Special Data Dissemination Standard (SDDS). On financing operations, we are ready to pledge our share of the second Special Contingent Account (SCA-2) balances to finance the ESAF subsidy, on the understanding that there will be an equitable burden sharing among all countries. Malaysia is also committed to participate in the New Arrangements to Borrow (NAB) to play its part to ensure a stable global financial system.

While we continue to provide resources to the Fund through existing and new financial assistance for the ESAF, the NAB, and regular lending to the Fund through the operational budgets, we look forward to international recognition of this effort. This recognition should be reflected in the new quotas under the quota review to be completed soon. In this regard, we look forward to representation in the Fund that is more in line with relative economic strength.

We also welcome the joint Fund-Bank report on their continuing efforts to reduce the multilateral debt burden of HIPCs to a sustainable level. The broad framework of agreed principles should improve on the existing debt-relief mechanisms, which are clearly inadequate for a number of HIPCs. However, as time is of the essence, agreement on the specifics must be expedited so that the HIPC debt initiative can be implemented without delay. In particular, we would urge for pragmatism and support the case-by-case approach to ensure flexibility in the provision of debt relief. While we agree to the linkage between debt relief and a strong adjustment program, together with a commitment to reform by recipient countries, greater flexibility is necessary in determining which countries are more deserving of access to the HIPC initiative. This is to avoid the risk of providing debt relief "too little and too late." The implementation of the HIPC initiative must be more forward looking and consider individual country circumstances in determining country eligibility instead of relying strictly on narrow numerical classifications. In addition, the evaluation of performance should be not only measured in macroeconomic terms, but it should also take into account the social implications. We must avoid imposing excessive social costs on the affected populations, which could derail the adjustment process in the domestic political economy.

The success of the HIPC initiative hinges on coordinated and concerted assistance from all creditors. Bilateral donors and multilateral institutions must play their respective roles to provide exceptional assistance beyond the existing mechanisms. In this regard we welcome the World Bank's commitment to provide a significant financial contribution to the proposed HIPC trust fund, and its readiness to provide other forms of assistance including International Development Association (IDA) grants, supplemental credits, and Bank transfers of net income as needed. We urge the Paris Club and all creditor countries to review their positions and to consider debt relief beyond 80 percent.

We welcome the Bank's continuing efforts at internal reform to maximize its ability to assist member countries in the most efficient manner. In particular we support the World Bank's efforts to promote conditions for private enterprise as the engine of growth for less-developed countries, while continuing to pay due attention to investment in health and education as the basis for long-term development. In an environment of declining official development assistance contributions and with the increasing importance of private capital flows, the Bank should continue to pay due attention to the needs of the poorer member countries to ensure that no country is left out of mainstream global economic development.

Statement by the Governor of the Fund for Malta

Francis J. Vassallo

It is a great pleasure and honor for me to address the Joint Annual Meetings of the International Monetary Fund and the World Bank. I would like, first of all, to join other Governors in extending a warm welcome to Bosnia and Herzegovina as a new member of the Bretton Woods institutions. I am sure that membership in the Bank and the Fund will hasten the process of reconstruction in that country, which has experienced such tragedy and misfortune over the past few years. I would also like to congratulate Mr. Michel Camdessus on his reappointment for a third term as Managing Director of the Fund. I am confident that he will continue to provide that sound and capable leadership that has enabled the Fund to meet the challenges of the new global economic environment.

International economic conditions and prospects this year have generally been satisfactory and encouraging. Economic growth in the industrial countries has reemerged, after moderating slightly toward the end of last year. This has been achieved against a background of historically low