

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

levels of inflation. At the same time, world trade has continued to grow significantly, as economic activity in the emerging-market economies, the economies in transition, and other developing countries has been sustained, underpinned notably by strong policies of macroeconomic adjustment and structural reform.

These favorable economic developments have, however, been accompanied by a number of negative trends that may hinder the attainment of higher levels of economic growth. In the fiscal field, for example, despite progress in reducing budget deficits, many countries have still not achieved fiscal consolidation. In the labor market, the existence of various rigid structures in a number of industrial countries remains a primary factor contributing to unacceptably high levels of unemployment. In the financial field, there is a need for stronger supervision of financial institutions and markets in order to reduce the impact on the international financial system of macroeconomic and financial instability in individual countries. In this regard, there is no doubt that a strengthening of the Fund's surveillance function will contribute significantly to the prevention of a Mexican-type financial crisis. The establishment by the Fund in late March of the Special Data Dissemination Standard (SDDS) to guide members having, or seeking, access to international capital markets is certainly a step in the right direction. Consequently, the obligation of member countries to provide up-to-date economic and financial data for public consumption should contribute not only to macroeconomic discipline and monetary stability, but also to the promotion of sound financial systems and efficient market mechanisms.

I am glad to say that over the last year my country has taken a number of measures to strengthen and upgrade its resources where the compilation of statistics is concerned in order to attain the high level required by international standards. Thus, as part of our preparations for membership in the European Union, we are in the process of integrating our statistical system with that of the European Union. While for the moment we will adhere to the General Data Dissemination Standard, we hope to be in a position to subscribe to the SDDS well before the end of the transition period in December 1998.

Malta remains committed to a program of economic and financial reform, which has now reached a very advanced stage. Reforms have been aimed at liberalizing all sectors of the economy and reducing the role of the state in economic activity. This has enabled our economy to operate within the framework of a market system and to integrate more closely with the economies of our major trading partners. We have been able to achieve relatively high levels of economic growth against a stable macroeconomic background and very low rates of unemployment. Important reforms have been implemented in both the fiscal and financial fields. In the fiscal sector, these have involved a switch to a more indirect system of taxation,

with the introduction of a value-added tax in January 1995 and a substantial reduction in taxes on incomes from the beginning of this year.

The reforms in the financial sector have been aimed at strengthening and developing the money and capital markets. An important measure was the decision by the monetary authorities to totally liberalize interest rates towards the end of last year. This has enabled the central bank to pursue an active monetary policy, aimed at maintaining price stability, through the use of market instruments, which it has continued to develop over the past few years. In its role as regulator and supervisor of the banking system, the central bank has continued to reinforce its surveillance function with the aim of safeguarding the soundness of the system as well as encouraging more competition between the financial institutions. Financial stability and a competitive environment are thus the two key elements of our strategy to establish Malta as an international business and financial center.

It is also the intention of the Maltese monetary authorities to liberalize the capital account completely in coming years. Although all restrictions on current payments have been lifted, there are still some restrictions on capital movements by residents. Consequently, as we proceed further with capital control relaxation, we would like to reiterate our support for the establishment of a Fund facility that will provide resources to countries that may face sudden external shocks as a result of destabilizing, short-term capital movements following the removal of capital controls. While we strongly support the recent initiative by the Fund to establish an emergency financing mechanism, we feel that the allocation of resources for the specific purpose I referred to earlier would act as an incentive to countries that still maintain controls on capital to hasten the pace of capital liberalization.

On the subject of capital flows, it is encouraging to observe that, during the past few years, the developing countries have been the recipients of capital inflows. However, a substantial proportion of these inflows are short term and can thus be susceptible to sudden withdrawal at the first sign of economic or financial problems in the recipient country. It is obvious that such short-term capital does not contribute to stability in countries that are undergoing macroeconomic adjustment and structural reform. The international financial community should therefore strive to stimulate investment in these countries through long-term capital instruments and direct participation in investment projects.

With low-income countries continuing to face unsustainable debt-servicing problems, it is essential that the Enhanced Structural Adjustment Facility (ESAF) continue to operate even during the interim period that will continue through the early years of the next century. Malta welcomes a rapid conclusion of the discussions on this subject, as it is in the best interest of all parties concerned. Malta continues to support an extension of the ESAF, and, despite its limited resources, it is willing to contribute to

the resources of the new facility. In this regard, Malta believes that the proposal to sell a portion of the Fund's gold holdings in order to increase its financial resources through the investment income earned should be considered only if all other options for augmenting such resources have been exhausted.

In focusing on the liquidity position of the Fund, I would like to associate myself with other Governors who have advocated a balanced distribution of the IMF's resources. Indeed, there is a possibility that the large amounts borrowed by some countries might crowd out the amount of money available for other countries, in particular the heavily indebted low-income countries. For this purpose, Malta favors an early conclusion of the discussions on the Eleventh General Review of Quotas. These discussions should, of course, take into account the changes in the economic and financial weight of member countries. However, at the same time, it should also be ensured that such a quota increase does not unnecessarily dilute the voting power within the Fund of the smaller countries. Finally, Malta wishes once again to show its support for a general allocation of SDRs. In this regard, it also favors a selective increase for those countries that have never received an SDR allocation.

In concluding, I would like to say that my country will continue to support and cooperate with the Fund and the Bank in their efforts to foster a stable economic environment conducive to growth and development. I would also like to take this opportunity to thank the managements and the staffs of the two institutions for their constructive advice and assistance whenever this was requested by my country. I am happy to say that the various technical missions that have visited Malta in recent years have played a significant role in enabling us to implement the important economic and financial reforms that were necessary to liberalize our economy and transform it into a market-oriented system.

STATEMENT BY THE GOVERNOR OF THE FUND FOR THE  
FEDERATED STATES OF MICRONESIA

*John Ehsa*

I am pleased and honored to address these Fifty-First Annual Meetings of the International Monetary Fund and the World Bank. On behalf of the members of our Pacific constituency—Kiribati, the Marshall Islands, Solomon Islands, Vanuatu, and Western Samoa—I would like to take this opportunity to join my colleagues in extending a warm welcome to Bosnia

and Herzegovina, the newest member country of the Fund and the Bank. I also would like to take this opportunity to express our profound thanks to the Fund's Managing Director and the Bank's President for their inspirational remarks, and their wisdom and charisma in leading the two institutions in this era of increasing globalization, complexities, and challenges.

Over the past decade, we have witnessed that the pace of global economic integration has intensified. The growth of global economic integration expanded world trade and increased private capital flows significantly, which contributed to the impressive global economic growth. The developing countries are faced with the daunting challenge of removing market and structural constraints and integrating in the global economy to reap the benefits of global economic integration. In meeting this challenge, it is imperative that the Fund and the Bank continue to provide financial and technical assistance to the developing countries in their efforts to integrate into the global economy.

We support the Fund's initiative in finding viable ways and means to finance a self-sustained Enhanced Structural Adjustment Facility (ESAF). There is no doubt that a self-sustained ESAF will greatly benefit the developing member countries, especially those member countries that are seriously undertaking economic and structural reforms. On the other hand, member countries that are borrowing from the Fund should likewise honor our members' obligations by ensuring that the ESAF resources are effectively used and repayments are timely to ensure its sustainability.

We commend the staff of the Fund for completing the framework for the publication and dissemination of data of member countries. There is no doubt that the standards will enhance transparency by publishing and disseminating official statistics that shed light on macroeconomic policies and performance. However, before subscribing to these data standards, we would like to reiterate to the Fund to take note of the need for technical assistance in the case of developing countries, especially the small Pacific island countries, which, at present, lack the expertise in compiling the necessary statistics needed to meet the Fund's reporting requirements.

Like any other financial institution, the Fund's liquidity is of utmost importance for the Fund to carry out its mandates effectively and to respond to crises of major proportions. We therefore support a doubling of the Fund's quotas with a significant equiproportional component in the increase. In view of the growing disparities in the voting rights of member countries, we also urge the Fund to review the basic votes allocated to member countries.

The International Development Association (IDA) is an important source of credit and assistance. IDA is essential to us in our quest for poverty reduction, which is central to the Bank's objective. In this context, we express our appreciation to those countries that have contributed to the IDA 1997 interim trust fund and to those that have committed to the

eleventh replenishment of IDA for FY 1998 and FY 1999. And we would like to join the other speakers to appeal to the remaining donor countries to contribute likewise.

We commend the Bank for recently creating the Private Sector Development Group as a means to further enhance development and growth in the private sector. In creating the Private Sector Development Group, we would like to request the Bank through the International Finance Corporation to make the Pacific islands investment fund a permanent feature of its assistance in the Pacific region by incorporating it into its country and regional assistance program.

With respect to Country Assistance Strategy, we noted with satisfaction that the Bank has taken the position to enhance its partnership with its members by soliciting member countries' participation and inputs in the formulation of country assistance strategy. Through this participatory approach, the Bank and Fund are in a better position to learn more about the priorities and needs of their poorer member countries. Along this line, I wish to underscore the importance of maintaining a fruitful partnership and policy dialogue with our regional bank, the Asian Development Bank, and other donors so that efforts are closely coordinated and resources are mobilized.

We would like to express our thanks to the Bank for creating a Papua New Guinea and Pacific Islands Division. The creation of such a division will sharpen the Bank's focus in assisting the Pacific island member countries. Finally, on behalf of the Pacific island members of our constituency, I would be remiss if I concluded my remarks today without expressing how appreciative and delighted we are for the work and technical support provided by the Bank and the Fund through their field offices in the Pacific, namely: the Pacific Financial Technical Assistance Center (PFTAC) in Suva, Fiji; the South Pacific Project Facility (SPPF) in Sydney, Australia; and the Foreign Investment Assistance Service (FIAS) also in Sydney, Australia. Their work has been proven to be effective, which we all appreciate. Their establishment increases our accessibility to your assistance and enhances our partnership in development. For all of these, we are indeed grateful.

#### STATEMENT BY THE GOVERNOR OF THE FUND FOR MONGOLIA

*Puntsagiin Tsagaan*

The current Annual Meetings are being held at a historic time, when the trends toward globalization and integration in economic, financial, and

all other fields are progressing rapidly. By and large, the world today finds itself at a moment of both opportunities and challenges for financial stability and economic growth.

Today, no country can afford to remain aloof from the ongoing tremendous transformations in Mongolia. For one thing, 1996 is a remarkable year. As a result of general elections held last summer, state power has been peacefully transferred to the coalition of the two democratic parties for the first time in 75 years. It is the logical outcome of the 1990 democratic revolution, which laid down a solid foundation for stable democratic development in my country.

The reform process is very complex, time consuming, and challenging, and to some extent painful. Like many other developing nations, Mongolia faces a host of problems inherited from the past low level of development, external debt burden, budget deficit, and the underdeveloped structure of the national economy, which is vulnerable to fluctuations of the world market. However, we do not consider that these problems are our destiny forever. Therefore, despite the existing hardships, the new government is determined to take decisive measures in close cooperation with the IMF and other international financial institutions in the areas of price liberalization, fiscal and banking reforms, pension system reforms, and privatization of state ownership, including that of land, and to accelerate the whole process of systemic transformation creating the conditions for sustainable social and economic development in Mongolia. We have already started to implement what we planned. As an example, we made the last price adjustment on electricity, fuel, and heating and approved urgently needed laws on banking affairs. Draft laws on tax reform, budget, housing and land privatization, and foreign direct investment are pending before the parliament.

I have no doubt that the ongoing reforms carried out by the government will have a far-reaching, positive impact on macroeconomic stabilization, the reduction of the budget deficit, the inflation rate, and sustainable growth in the country in the immediate future.

The new government of Mongolia, acting in compliance with its strategic policy agreed with the IMF, is determined to utilize this historic opportunity to put the country on its feet and on the road to prosperity. In conjunction with this, let me express my sincere support to your new approach, which emphasizes the efficiency of all assistance and cooperation provided by the international financial institutions for the benefit of the recipient country.

The main thrust of our government policy is to reduce the role of the state in the economy and to encourage private sector expansion and investment. Thanks to the privatization of state ownership, started in 1990, hundreds of small and medium-sized enterprises have been transferred to private owners. At present, securities of 470 shareholding com-

panies are traded at the stock exchange. Livestock (28 million head, more than 95 percent of which are privately owned) is still the backbone of Mongolia's economy, and stocks have increased by 3–4 percent every year. Mongolia has not only overcome the enormous difficulties attributable to the collapse of the Soviet Union and the Council for Mutual Economic Assistance, but has seen economic growth in the past two years. The trend is likely to continue and will strengthen further. I would like to emphasize the high priority that our government gives to foreign investment.

I was very pleased to know during this annual meeting that the International Finance Corporation is going to make its first investments in Mongolia. Foreign investors may be surprised to find a highly skilled, motivated, and competitive workforce ready and willing to deal with new ventures and new challenges. Mongolia has vast and spacious land, covering 1.5 million square kilometers rich in deposits of minerals like copper, molybdenum, zinc, iron ore, gold, silver, oil, uranium, coal, fluorspar, and phosphorus. Our geopolitical position between two giant markets is offering us business opportunities without limits. In addition, Mongolian laws provide the most favorable conditions for foreign investors; in particular, they allow fully owned subsidiaries and 100 percent profit transfers abroad. For your kind attention, I would like to inform you that, in cooperation with the World Bank, we will convene a roundtable meeting this coming November and the International Conference of Foreign Investors in the fields of oil, gas, and mining in early June 1997 in Ulaanbaatar. We invite you to join us.

In conclusion, allow me to reiterate Mongolia's strong will to vigorously pursue the necessary economic reforms to be supported by a new ESAF arrangement with the IMF and assistance from donors, including the World Bank, in order to achieve the successful completion of our transition to an efficient market economy with robust noninflationary growth.

#### STATEMENT BY THE GOVERNOR OF THE BANK FOR MYANMAR

*Win Tin*

I feel privileged to have the honor of addressing the 1996 Annual Meetings of the International Monetary Fund and the World Bank.

I would like to begin by saying how heartened I am that we are starting out the second half of the decade with two able, dedicated men at the helms of the Fund and the Bank.



I wish to congratulate Mr. Michel Camdessus on being selected for an unprecedented third term as Managing Director of the Fund. With his vast experience, we look forward to his creating the image of the Fund as an institution capable of fulfilling the responsibility of international monetary cooperation.

I also wish to congratulate Mr. James Wolfensohn for his ability to raise Bank staff morale through reorganization and further staff training. I am confident that he will achieve equal success in the bid to reduce poverty in developing countries.

We observe with satisfaction that the world economic outlook remained generally encouraging. Behind this overview, however, we note that many industrial countries face challenges of addressing weaknesses in their economies, and, in the midst of a growing number of success stories among developing countries, there are also many countries that are struggling with macroeconomic imbalances.

Turning to the important developments in the Fund and the Bank, we find that, although SDR allocations have an important role to play in the international monetary system, agreement has not been reached for new allocations. As regards the Eleventh General Review of Quotas, discussions have yet to be concluded for action. We welcome the recent agreement on the eleventh replenishment of IDA, which would allow disbursements of US\$22 billion over the three years beginning July 1996.

We would like to express our deep appreciation for the debt-relief initiative being undertaken by the Fund and the Bank for the heavily indebted poor countries. The SDR allocation, the quota increase, and the debt-relief initiative are issues of great interest to developing countries. We, therefore, eagerly look forward to the materialization of these issues in the near future.

Let me now turn to how Myanmar has fared as it moves further down the road of a market economy.

The good growth performance over the past few years continued into 1995/96, the last year of the Four-Year Short-Term Plan, when GDP rose by 9.8 percent. This brings the average growth during the entire plan period to 8.2 percent, as against the original target of 5.1 percent. Mainly responsible for this good performance was the remarkable progress in the productive, services, and trade sectors, together with the substantial rise in investments and exports.

Since the last Annual Meetings, much has been done to maintain the momentum of our good record at striving to attain macroeconomic stability. The Central Bank raised its interest rate by 2.5 percent to 15 percent in April 1996, the highest ever since regaining independence, and has stepped up mobilization of savings. Positive results appear to be emerging from these moves as the growth of money supply has slowed down to 35.3 percent in 1995/96 from 39.1 percent in 1994/95. Inflation, which has been stable around 22.4 percent in 1994/95 and 1995/96, has now been brought

down to 14.5 percent at the end of August 1996, while savings have increased by 57 percent in 1995/96 compared to an increase of 48 percent a year ago.

As a result of our continuing commitment to infrastructure development, we still have a budget deficit and have been trying to narrow it by reducing nonproductive expenditure. The export tax on most exports has been removed, and the collection of revenue has improved with the adjustment of customs duties combined with assessments based on prevailing market prices. These measures will contribute to improve revenue and reduce the budget deficit in the current year.

Despite the increase in exports of 15.2 percent in 1995/96, the much stronger increase of 18.1 percent in imports resulted in a wider trade balance deficit. The current account suffered a setback on account of the reduction in income from services. The increase of 53.1 percent in foreign direct investment inflow has resulted in a capital account surplus. In this context, I would like to mention that our direct foreign investments reached US\$4.3 billion at the end of August, covering 204 projects in ten sectors. The overall balance of payments showed a deficit in 1995/96, but the gross reserves remain comfortable at the equivalent of three months of imports.

The exchange system has undergone considerable liberalization. Foreign currency swaps between exporters and importers are being allowed, and banking arrangements have already been made between the banks of neighboring countries to normalize border trade.

Our good economic performance has been made possible by the prevalence of law and order. This in turn has earned us the acceptance of our neighbors and trading countries as worthy partners in building regional cooperation. In fact, the members of the Association of Southeast Asian Nations (ASEAN) have welcomed us and granted us observer status. This is an important step toward becoming a full-fledged member of the ASEAN group, which commands considerable respect in the region. As neighbors and trading partners, the ASEAN countries are constantly in close touch with us to be able to assess and understand us. We appreciate their understanding of our situation and their acceptance of us as a future member. The recognition accorded to us by the ASEAN countries is a strong testimony to the friendly relationship we share with them, and the warm welcome extended to us projects a meaningful image of our international standing in Asia and brightens our economic prospects.

Looking ahead, we believe our association with ASEAN will enable us to contribute toward strengthening regional cooperation in southeast Asia and, in the process, help us to sustain our present economic performance to secure for us a place among the successful economies of this region.

We wish it to be known that our cooperative efforts are not confined only to the regional level, but that we are equally eager to pledge our co-operation and support to the Fund and the Bank in the spirit of cooperative

strategy as set out in the Madrid Declaration, with the firm belief that the services and advice of these twin institutions will play a crucial role in guiding us toward the goal of macroeconomic stability.

STATEMENT BY THE GOVERNOR OF THE BANK FOR NEPAL

*Ram S. Mahat*

At the outset, I join other speakers in welcoming the new member, Bosnia and Herzegovina, to the Bretton Woods institutions and look forward to its valuable contribution in nurturing these institutions for the common benefit of the member countries. I also take this opportunity to extend congratulations to Michel Camdessus, Managing Director of the IMF, on his election to a third consecutive term.

The sharp increase in external private financing to developing countries over the past few years is very encouraging. However, the continued decline in official development assistance (ODA) in the face of the rising need for it in developing countries is discouraging.

Looking at global economic performance, 1995 was a turbulent year, as the world could achieve only moderate economic growth. However, the encouraging pace of global integration and its impact on world trade and finance have spread optimism on the horizon. This has inspired developing countries, because integration would particularly enhance the scope of their trade expansion and eventually the magnitude for aid resources. Industrial countries, we believe, have a crucial role to play in sustaining and safeguarding important reform processes that are under way in developing countries. We, therefore, urge all major industrial country governments to strengthen their domestic macroeconomic policies and to move speedily toward the true spirit of a world trade accord.

We are pleased to note that negotiations for the eleventh replenishment of the International Development Association (IDA-11) have been successfully concluded. The need for concessional ODA is undoubtedly enormous in the poorest countries to build, sustain, and enhance their economies. As the majority of developing countries, including my own, are confronting the formidable task of alleviating poverty, their efforts have been deficient compared with their requirements for infrastructure and human resource development, institutional and policy reforms, and other priority development programs. They still have a long way to go to establish foreign creditworthiness so as to be able to borrow from foreign private funding sources. I, therefore, would like to reiterate that foreign

grants and concessional assistance are the only pragmatic means of support for these countries. As I stated last year, IDA funds should be allocated solely to the poorest and the least-developed countries to help them build up their institutional and technical capacity.

We understand that the level of commitment for the IDA replenishment is significantly less than what IDA's planned lending program is likely to require in the coming years. Hence, we urge donors to make adequate resources available for IDA funding to support far-reaching economic reforms in poorer countries. We support the principle of fair burden sharing that has been raised by IDA Deputies. We fully agree with the IDA recommendation that it should consolidate and sharpen its focus on poverty reduction. In this respect, we also commend the President and the management of the Bank, particularly for strengthening poverty-reducing activities in developing countries.

Like many developing countries in the world, we are engaged in deepening as well as widening the liberalization process to establish the private sector's lead role in economic development. In this context, we feel that both the Bank and the Fund should speed up their actions to help promote the private sector. We think that the current initiative by the Bank to develop new instruments, namely, IDA guarantees and the IDA private investment fund, is an encouraging beginning. Similarly, we consider that the activities of the International Finance Corporation and the Multilateral Investment Guarantee Agency should be further streamlined to promote private sector development. I wish to commend both the Bank and the Fund on their efforts toward resolving the debt problems of heavily indebted poor countries.

A review of SDRs, although taken up seriously by the Fund, was postponed, because agreement on its modality could not be reached. We hope that the review process will resume soon. We firmly believe that the Enhanced Structural Adjustment Facility (ESAF) has assisted immensely to strengthen economic liberalization policy and maintain macroeconomic stability. There should be no second thoughts about its continuation in the interest of the poorest and most highly indebted countries. In this regard, we endorse the initiatives taken by the Managing Director of the Fund. We would like to note that the decreasing volume of lending in real terms in recent years will have a significant impact on the net transfer of resources to developing countries. Efforts should be made to reverse this trend.

Now, I would like to briefly describe the economic situation of Nepal and outline the current economic reform initiatives undertaken by the government.

Nepal's overall economic indicators of the last fiscal year have shown an encouraging picture. GDP is estimated to have increased by 6.1 percent compared with the preceding fiscal year. Economic growth has been broad based; the fiscal deficit was contained within desirable limits; the money supply and inflation have remained under control; and foreign trade has

shown signs of improvement. These achievements have been stimulants for us to continue the economic reform process.

We are aiming to achieve high rates of economic growth while reducing poverty. For this, we have emphasized strengthening the economic liberalization program and maintaining economic stability, creating employment opportunities mainly by expanding economic liberalization to the rural and underdeveloped areas, developing human resources, empowering local bodies by providing them authority and resources, allocating limited resources to high-priority sectors, controlling unproductive expenditures, and accelerating internal resource mobilization. These measures are expected to increase the revenue/GDP ratio by 1 percentage point and the development expenditure/GDP ratio by almost 2 percentage points. However, the current expenditure/GDP ratio is projected to remain at last year's level.

We have substantially increased the government budget allocation to the social sectors. We have also developed specific strategies for expanding employment-generating activities, skill development programs, access to credit facilities, and self-employment opportunities to alleviate poverty.

The government has made a strong commitment to export promotion. Emphasis has been given to the production, processing, and export of agro-based products. In addition to the existing facilities, incentives like concessional loans, a leasing facility for public land, and other tax incentives have been introduced to promote exports. Incentives have also been provided for the development of linkages for export-oriented products. Considering the underdeveloped state of infrastructure, which is a major bottleneck for the country's economic development, we have emphasized the development of power, roads, and communications. The parliamentary ratification of the Mahakali Treaty between Nepal and India has paved the way for possible investment and financing by private investors on agreed hydroelectric projects. Tourism is emerging as an important sector of our economy and has immense potential for development. We are implementing a program to improve and protect the environment and develop tourism-related infrastructure. Fellow Governors, allow me to take this opportunity to inform you that we have designated 1998 as "Visit Nepal Year," and solicit your support in making our mission a success.

We are thankful to the international donor community for its consistent and strong support for our economic reform measures and also for its commitment to provide funding to carry out these measures. We note with great satisfaction that the Aid Group Meeting held in Paris in April 1996 has pledged an amount close to \$1 billion for implementing our socioeconomic development programs. We express our sincere appreciation to the Nepal Aid Group members.

Finally, both the Bank and the Fund have significantly contributed to our development endeavor. I express our sincere appreciation to them and look forward to a strengthened development partnership in the days to come.

STATEMENT BY THE GOVERNOR OF THE BANK FOR  
THE NETHERLANDS*Gerrit Zalm*

First, I would like to welcome Bosnia and Herzegovina as a new member of the IMF and the World Bank Group, and I am proud that it has chosen to become a member of our constituency. I strongly support continuing efforts of the institutions to provide adequate support to Bosnia and Herzegovina during this crucial phase of reconstruction.

*Economic Outlook*

The economic results of 1997 will be a decisive factor in determining which European countries will participate from the start in the third stage of the Economic and Monetary Union. With the deadline in view, policy discussions on the need for further budgetary consolidation have intensified. It has been suggested that because of the fragility of the recovery in Europe, efforts to comply with the Maastricht criteria could harm the prospects for economic recovery and employment growth.

I do not subscribe to this view. Let me first stress that budgetary consolidation is very much needed for its own sake, quite apart from the considerations of Maastricht. This is true not only for Europe; the IMF staff has convincingly argued in its *World Economic Outlook* that the need for a restructuring of government finances prevails among all country groupings—be they industrial, developing, or transition economies. In industrial countries, progress has been made with checking inflation. However, on the budgetary side, the levels of public debt and interest payments have continued to rise. In its surveillance activities, the IMF has therefore rightly emphasized the need for further budgetary consolidation, also in the light of future demographic pressures on government spending.

Moreover, it is a misconception that the restructuring of government finances hampers economic growth and job creation. To illustrate this I would cite several examples—such as the United States in recent years—but perhaps you will allow me to focus on the experience of my own country, the Netherlands. By 1997, the budget deficit will equal 2.2 percent of GDP, down from 4 percent in 1992. Yet over the same period, economic growth, and especially employment growth, have been substantially above the European average. This is no miracle performance; it just shows that it is possible to turn around a vicious cycle of low employment, increasing high public spending, and a rising burden on the

private sector, resulting in still higher labor costs. The key to such a turnaround lies in a mutually reinforcing combination of fiscal prudence and structural reforms, supported by—and giving support to—continued wage moderation.

### *Multilateral Institutions*

Not only industrialized countries should continue to pursue sound economic policies. This is also true for developing and transition countries, of which many have already strengthened their economic and structural policies. At the same time, the multilateral institutions have been improving the effectiveness of their own operations. In addition, shareholders have assigned several new responsibilities to them. It would be most unfortunate if progress on these fronts were to be endangered by lack of adequate financial support for the institutions.

Recent replenishment discussions in the International Development Association (IDA), the Enhanced Structural Adjustment Facility (ESAF), and some of the regional banks have shown a downward trend in donor contributions from major shareholders. The IDA Interim Fund was a constructive response to this situation. However, because of the more permanent nature of the present funding problems, structural issues within the World Bank Group will have to be considered. This includes the decision-making rules in the institutions. We cannot start from scratch at every replenishment negotiation, and we cannot keep compensating for the effects of unilateral decisions by other donors.

We welcome the agreement by the Interim and Development Committees on the debt initiative for the heavily indebted poor countries (HIPC). It provides heavily indebted poor countries that perform well with an opportunity to achieve an exit from their unsustainable debt position, while preserving the financial solidity and the preferred creditor status of the multilateral banks and the IMF. We are also pleased with the fact that all parties—creditors in the Paris Club as well as the multilateral institutions—have shown readiness to take responsibility. Now that this breakthrough has been achieved, the Netherlands will make a contribution to the HIPC trust fund, if other bilateral donors do the same. We also intend to provide 100 million guilders, approximately US\$60 million, to enable continuation of ESAF operations of sufficient size.

Finally, we also welcome the considerable progress that has been made in a good atmosphere on issues that have been on the Fund's agenda for some time now, like the equity allocation of SDRs and the establishment of the New Arrangements to Borrow (NAB). We hope that this pace can be maintained in our discussions on the quota increase.

## STATEMENT BY THE GOVERNOR OF THE BANK FOR NEW ZEALAND

*Murray J. Horn*

The current prospects for sustained global economic growth are promising. One important factor has been the impressive success of the monetary authorities in the industrial countries in keeping inflation at low levels. There is now a very widespread and welcome recognition that maintaining price stability is the key contribution of monetary policy to growth in output and employment and that monetary policy must act pre-emptively to contain emerging inflationary pressures.

A second feature of the global outlook in recent years is the very high growth rates being achieved by a number of developing countries, and the impact this is now having on global output. This reflects the increasing adoption of comprehensive market-based strategies and the growing international consensus that governments must concentrate on their core business of achieving macroeconomic stability and creating the right environment for vigorous private sector growth. Of course, a number of developing countries are wrestling with very high debt burdens, and current efforts by the international community to address this problem are discussed below.

Third, it is significant that growth is forecast to resume in the transition economies as a group in 1997, and at the welcome rate of 4 percent. The differences in performance across transition economies demonstrate very starkly, however, the rewards from early, decisive efforts at stabilization and restructuring. One critical element lagging in many transition economies is trade reform. As has been shown elsewhere, moving to transparent, tariff-based regimes and lowering rates of protection create a powerful spur to enterprise restructuring and international competitiveness and innovation, and put the economy on a higher growth path. We strongly support the efforts of the Bretton Woods institutions to create more open trade and investment systems.

While the overall prospects for continued solid growth in the global economy look good, serious risks remain. Continuing vigilance is required to prevent a reemergence of inflation in the industrial economies. The key risk continues to be chronic fiscal deficits around the world, because of their role in triggering financial crises and inflation, and their negative impact on the level of global savings, interest rates, and the allocation of investment.

A critical failure in fiscal policy in many countries is the focus on the short-term fiscal position at the expense of sound medium-term policy. Short-term political pressures for more spending and lower taxes, as well as the temptation to use fiscal policy to moderate the cycle, tend to produce



fiscal policies that move from one short-term distraction to the next. While most agree on the need for a sound medium-term approach, in practice the medium term is often little more than a succession of short-term reactions. The result is long-standing deficits, mounting public debt burdens, and high interest rates that restrain growth and job creation.

New Zealanders are only too well aware of the dangers of "short termism" in fiscal policy. High deficits experienced throughout the 1970s and 1980s were associated with very poor macroeconomic performance and mounting public debt. The seriousness of our position obviously helped create the conditions for decisive action to cut the deficit and move the budget to surplus. However, a key element in breaking with the past was also the adoption of an explicit medium-term framework for fiscal policy, with strengthened institutional processes for fiscal management. These culminated in the adoption of the Fiscal Responsibility Act in 1994, which provides legislated requirements for the conduct of fiscal policy. Perhaps the key element here is the use of transparency requirements as an enforcement mechanism. The government is now required by law to publish a more complete set of statements about its financial position than perhaps any publicly listed company in New Zealand. Significantly, the Fiscal Responsibility Act enjoys broad political support.

We believe greater transparency in fiscal policy is both desirable and inevitable in today's world of open capital markets, and we welcome the greater interest the IMF is taking in these issues. Supporting those domestic interests most supportive of fiscal and financial prudence has always been one of the key contributions of the Bretton Woods institutions. In their roles as policy advocates, conditional lenders, providers of technical assistance, and (in the Fund's case) setter of international standards for fiscal accounting, the Fund and the Bank have the ability to play an even greater role in supporting greater fiscal prudence around the world.

The improvement in New Zealand's fiscal performance has been dramatic. From a deficit of 7 percent of GDP in 1991/92, the budget moved into surplus in 1993/94, and the surplus reached 3.8 percent of GDP in the year to June 1996. This has allowed rapid repayment of public debt. It has also been possible at the same time to make significant cuts in income taxes and increase spending in the priority areas of education and health. Despite further tax cuts planned for next year, the budget surplus is projected to increase to 5.9 percent of GDP by 1999/2000.

Hand in hand with improved fiscal performance in New Zealand has been a greatly improved economic performance across the board. After averaging 11.3 percent in the 1980s, inflation has averaged just 2.0 percent in the period since 1991. Even with very strong economic growth in 1994 and 1995 (with growth peaking at 6.6 percent in the year to June 1994), underlying inflation has been kept firmly in check. The current annual un-

derlying rate of inflation is 2.3 percent, and it is expected to be back within the 0–2 percent target band by the middle of next year.

Unemployment, which reached 11.5 percent in 1991, has come down to 6.1 percent currently as a result of both strong economic growth and fundamental labor market reform. And after growing at an average of just 1.2 percent a year between 1977 and 1991, the economy has grown at an average of around 2.8 percent over the past five years. Even at the trough of the current business cycle, New Zealand will enjoy growth nearly double the average in the 15 years from 1977. While the current account deficit has widened to about 4 percent of GDP, this is much smaller than in previous periods of strong growth and is associated with large foreign investment inflows and sustained fiscal surpluses.

We attribute the success of our reforms to the sustained and comprehensive implementation of both macroeconomic and microeconomic measures, and to the establishment of an ongoing economic strategy to maintain the focus of policy squarely on a “growth-friendly” environment. We therefore very much support the adaptation of the Madrid Declaration to emphasize the importance of the complementarities between different reforms and the need to move in a sustained manner on both macroeconomic and structural fronts if reform efforts are to bear full fruit.

In particular, we agree with the stress being placed on fundamental labor market reform in industrial countries to deal with the current very high unemployment levels in many of them. New Zealand’s experience has been that comprehensive reform of labor market structures, welfare programs, and education arrangements has greatly assisted the dramatic reduction in unemployment. The fall in the unemployment rate of the long-term unemployed has been even more rapid. The government has also increased targeted assistance to low-income working families to improve their ability to share the benefits of growth.

Returning to the position of the heavily indebted poor countries (HIPC’s), New Zealand supports the current efforts by the international community to address this problem on the basis of additional coordinated actions by all creditors. Clearly, in some countries the legacy of poor past policies and performance has reached the stage where debt burdens are acting to stifle efforts to grow out of the problem. A limited and carefully designed debt-relief initiative could remove a serious impediment to the adoption of sound medium-term policies. The framework developed by the Bank and the Fund seems broadly appropriate as a means of providing incentives for the pursuit of responsible economic policies, and the requirement of a good track record before qualifying for debt relief is necessary in order to limit the risk of moral hazard. We would be prepared, however, to consider more flexibility in the procedures as a way of recognizing good past performance. Some flexibility is essential to make the initiative work, and is at the heart of the case-by-case approach being proposed.

As far as the role of the multilateral institutions in the initiative is concerned, we support the proposed modalities as a judicious balancing of the need to protect their preferred creditor status with the recognition that multilateral debt is a significant component of the debt burden of the HIPC's. We support the Bank's moves to contribute to the HIPC initiative through a combination of transfers from net income to the HIPC trust fund, and, where appropriate, International Development Association (IDA) grants and supplemental IDA allocations. We also welcome the Bank's intention to set aside US\$500 million to the trust fund from FY 1996 net income, but note that this allocation is contingent on coordinated action by all creditors. Progress since last year on the HIPC initiative has indeed been impressive. We would encourage all creditors to maintain the momentum and agree on equitable burden-sharing arrangements.

On the IMF's role, we support use of the Enhanced Structural Adjustment Facility (ESAF) as the means by which the Fund will contribute to the initiative. To the extent that bilateral contributions fall short of the amounts to put ESAF on a self-sustaining basis, we can support a consensus in favor of more active use of a limited amount of the Fund's gold.

With respect to the adequacy of the IMF's general quota resources, in our view the Fund's liquidity position remains comfortable, and there need be no urgency to conclude the Eleventh General Review. We agree that the Fund should remain primarily a quota-based institution, although we consider there is an important role for Fund borrowing in certain circumstances. We do not consider, however, that the increased globalization of financial markets points to a need to increase the Fund's quota resources in any major way. The primary lesson to be drawn from the growth of financial markets is the need for greater credibility in economic policies; the first priorities must therefore be to improve the Fund's surveillance and the effectiveness of Fund programs.

Throughout the year, the Bank has sought to improve its development impact. One aspect of this has been to improve, wherever possible, the Bank's use of its resources. This internal change in the management agenda is large, challenging, and important. The Bank is undertaking a variety of initiatives designed to clarify accountabilities, to enhance the level and mix of skills available within the organization, to improve the quality of its services, and to improve its overall effectiveness and efficiency.

New Zealand supports steps to improve the Bank's results on the ground. We take a cautiously conservative position with respect to whether investment to improve the Bank's administration and performance requires additional funding. We would stress that, in a changing world, the Bank needs to ensure that it concentrates on those activities it does best and to operate in partnership with other players, be they private, public, or sister multilateral institutions, to ensure that quality outcomes are achieved at the lowest practical cost.

Similarly, while we welcome the recent efforts to strengthen surveillance, we consider that the IMF could further improve both its effectiveness and efficiency by focusing more carefully on priorities and continued strengthening of its management practices.

Finally, New Zealand looks forward with great interest to the upcoming World Trade Organization (WTO) ministerial meeting in Singapore. The formation of the WTO completes the Bretton Woods vision of an international trade organization, working alongside the Bank and the Fund, and sets the scene for a new era of international economic cooperation.

The priorities for Singapore must be to ensure that the market access gains from the Uruguay Round are realized. In particular, the Uruguay Round agreements to commence negotiations on a range of issues, including agriculture and services, should be developed following the preparation of appropriate work programs.

The Singapore meeting should also focus on the opportunity to prepare the way for the start of further comprehensive negotiations as soon as possible. The world cannot afford to ignore the improvements in living standards, for both developing and industrial countries, that are possible from concerted collective international action to remove the impediments to international trade.

#### STATEMENT BY THE GOVERNOR OF THE FUND FOR NICARAGUA

*Jose Evenor Taboada Arana*

First of all, Mr. Chairman, allow me to congratulate you personally on your part in the economic achievements of your own country, Chile, which are an inspiration and example to all our countries.

Mr. Camdessus, on behalf of the President of Nicaragua, Violeta Barrios de Chamorro, and on my own behalf as well, I congratulate you on your reappointment as Managing Director of the International Monetary Fund. It is a sign of the recognition commanded by your abilities and unquestionable world leadership in this period of major challenges. And I also wish to thank you for the resolute support you and the staff of the Fund have provided for Nicaragua in these difficult times, marked in its case by profound economic, social, and political transformations.

Mr. Wolfensohn, I congratulate you on the major changes you have introduced within the World Bank Group and on the refocusing of its worldwide development assistance objectives, especially where the most disadvantaged groups are concerned. I also thank you for your institution's

invaluable support for Nicaragua. It is our earnest hope that the Bank Group will have sustained access to the human and financial resources needed to allow such support to continue.

With only 18 days left before general elections in Nicaragua that will secure its democracy and pave the way for the constitutional replacement of our esteemed President, we come before you, our partners in Nicaragua's recovery, to report to you on the progress we have achieved with your help.

Nicaragua can be regarded as the sole example of a transition economy in Latin America today—a point on which I would note that it was our government's economic policy actions, consistently aimed at achieving adjustment in three key areas, namely the public sector, the private sector, and the external sector, that have produced the present results.

Adjustment in the public sector was a matter of structural measures that reduced its size to financially sustainable levels in current account terms, a structural reform that also laid the foundations for sustained long-term growth based on private investment incentives.

Adjustment in the private sector consisted of abolishing government subsidies provided through credit and exchange policies, reducing tax exemptions, and eliminating an index-linked wage policy in the public sector.

Action in the external sector involved two important initiatives: an exchange policy consistent with the objectives of promoting exports and achieving long-term balance of payments equilibrium; and intensive renegotiation of the external debt, on the basis of the government's political commitment to recognize Nicaragua's debt-service obligations to the international community.

As a result of its changed approach to the management of economic policy instruments, Nicaragua today possesses a market-oriented economy with interest rates freely determined by the forces at play in that market, an exchange system based on keeping depreciation in line with inflationary trends, a tariff policy consistent with the country's aim of achieving a more outward-oriented economy, an independent labor market, and a credit policy fully separate from the central bank. In other words, there exists no resemblance between the country's expansionary monetary and fiscal policy during the 1980s and the responsible monetary and fiscal policy (consistent with the objectives of stability and economic growth) that the government of Violeta Barrios de Chamorro has pursued and that you yourselves have supported financially.

As part of the process of rethinking the government's role in the economy, a program of privatization was begun, which will come to fruition in the next few years. Especially significant are the privatization of 40 percent of ENITEL, the government-owned telecommunications corporation; the forthcoming transfer of its management to the private sector; and the project for capitalization and control of Banco Nicaraguense, the country's

second largest government-owned bank, by private international banking interests.

Progress has been made in the area of institutional reform. For instance, central bank autonomy has been strengthened; a Superintendency of Banks has been set up; the role of the government-owned banks has been redefined; and legislation has been enacted introducing a separation between the commercial and regulatory activities of public utility service agencies, so that private interests may now invest in the business of providing these services.

As far as incentives for private enterprise are concerned, new legislation governing foreign investment has been enacted, measures promoting the establishment of export processing zones have been introduced, steps guaranteeing freedom of private capital flows have been taken, and foreign banks are now at full liberty to establish themselves.

Significant progress has been made in resolving conflicts stemming from real estate confiscations during the 1980s. Previous owners have been paid compensation in the form of bonds, while legitimate purchasers have been granted title. This has contributed greatly to an important urban and agrarian reform process with a major impact on social stability in Nicaragua.

Where inflation is concerned, the Nicaraguan economy has gone from a hyperinflationary phase to one of stability. The average annual inflation rate over the past three years has been 12 percent. The hyperinflation of 13,490 percent, with which this present decade began, is now hardly more than a memory.

Economic growth in Nicaragua has gone through three stages over the last 13 years. The first was a period of prolonged deterioration lasting from 1984, when GDP declined at an average annual rate in excess of 2 percent, until 1989, when GDP fell by more than a third, and per capita GDP by more than 45 percent. The second of these contractionary stages lasted from 1990 to 1993, with the economy showing virtually zero growth. Finally, a rebound started in 1994, with growth beginning again at an initial average annual rate of over 4 percent.

Inflation control and growth resulted in a substantial improvement in government finances, evident in a healthy current account savings rate that has reached 5 percent in 1996, compared to a deficit of 18 percent of GDP in 1990. If grants and interest payments on the external debt are excluded, the consolidated fiscal deficit is seen to have improved significantly, having moved from 20.3 percent of GDP in 1990 to less than 8 percent of GDP in 1996.

Nicaragua's external position has also improved significantly. The trade deficit has shrunk from a level of 30 percent of GDP in 1992 to less than 15 percent of GDP in 1996, thanks to a threefold growth in our exports and sustained import performance. The real economy has righted it-

self, and total expenditure within the economy (consumption plus investment) has achieved equilibrium in relation to domestic GDP. This result is admirable, especially when recalling that total expenditure as recently as 1992 exceeded that year's GDP levels by more than 30 percent.

As for the private sector, it has increased its savings rate by more than five times, and its exchange operations by more than six times since 1990. One contributing factor here has been the increasingly outward-oriented nature of the Nicaraguan economy, which has opened the doors to private capital flows. In their own turn, these results have led to a reduction of more than 5 percent in the unemployment rate, and to a slight increase in per capita income.

While it has taken a major effort to bring Nicaragua over the long road to the point where it now stands, much ground still remains to be covered. Our country must continue to lift tariff barriers, increase productivity, and target social expenditure effectively, especially in primary and technical education and in preventive health care.

In the external sector, the extent to which Nicaragua can achieve sustainability will depend on its accomplishing more rapid and substantial reductions in its external debt. In this regard, we welcome the Heavily Indebted Poor Countries initiative and await its implementation as a matter of urgency; together with the bilateral relief measures proposed, this initiative will be an indispensable factor in ensuring Nicaragua's self-sustaining economic development.

On my government's behalf, I wish to express our profound gratitude for the support provided not only by the institutions that have accompanied us on many difficult though hopeful journeys, but also by those individual countries that have accorded us their practical friendship during this time.

It is not only my own wish but that of my government as well that the energy you have all put so resolutely into assisting Nicaragua will be available to our new government, in the sure knowledge that the triumph of the people of Nicaragua over poverty will stand worldwide as an example of how successful structural adjustment programs can be.

STATEMENT BY THE GOVERNOR OF THE BANK FOR PAKISTAN

*V.A. Jafarey*

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 contribu-

tions to world financial stability and development in these challenging times.

It is an honor for me, once again, to represent Pakistan at the Annual Meetings of the Fund and the World Bank Group. We meet this year against the backdrop of a global economic picture that projects a confident optimism, and with encouraging signs that the conditions are in place for a broadening and strengthening of the economic expansion in 1997. There is much in the current situation to justify the optimism. In the industrial world, the conjuncture of low inflation, steady growth, and calm financial markets is a striking illustration of the benefits of sound macroeconomic and financial policies, while the forces of globalization continue to manifest themselves in the continuing rapid expansion of trade and financial flows. The developing countries, as a whole, continue to grow at impressive rates and provide the most dynamic markets for exports from the industrial countries. There are encouraging signs that in Africa improvements in economic performance are beginning to be felt in a modest rise in living standards. Even the countries in transition offer a generally positive outlook.

There are, however, shadows in this sunlit landscape because many policy challenges remain. For the industrial countries, the most important challenges are the need to sustain growth, reduce unemployment through bold measures to address structural rigidities, and prevent a resurgence of inflation. Sustained and decisive progress in these areas can be expected to have a favorable impact on the stability of international capital markets and minimize the risk of disruptive reactions in interest and exchange rates. Growth in the developing countries, particularly in the poorest, must be maintained and extended, supported by a global environment that offers improved access to industrial country markets and timely financial support on appropriate terms. The design of adjustment programs must continue to place appropriate emphasis on growth-promoting forces, while providing for social safety nets that are well targeted so as to alleviate the adverse impact on the most vulnerable groups. Furthermore, if developing countries are to be encouraged to liberalize and open their economies further to external competition, protectionist groups must resist using labor standards, environment security, and human rights as disguises for their advocacy for trade restrictions.

Let me make a few comments on some of the important issues that have been placed on the agenda of this year's Annual Meetings before turning to a brief description of the present economic situation of my country.

We welcome the concrete steps that have been taken recently to strengthen Fund surveillance of member countries' policies. The review of policies in the context of surveillance contains important lessons for all of us: the quality and composition of fiscal adjustment; disinflation strategies in countries with persistent inflation; and the challenges of



trade policy action in the transition countries. While the Fund is justified in supporting rapid and ambitious movement toward desired medium-term objectives in all these areas, it is important to remain mindful of the fact that country-specific constraints, which are often political and social, can make actual progress somewhat less rapid. We encourage the Fund to broaden and deepen its work on the costs of inflation and the magnitude of the "sacrifice ratio" involved in programs of rapid disinflation.

We commend the management of the two institutions for the initiative that has been launched to address the debt problem of the heavily indebted poor countries. All parties concerned must now reinforce their efforts toward finalizing the framework for action. It is clear that the success of the program depends on the participation of all creditors, and action by them is vital if we are to resolve the debt problem decisively and in a sustainable manner. We hope that the framework will be applied with a high degree of flexibility and take cognizance of the need to accord public finance indicators the same weight as traditional balance of payments indicators in the evaluation of debt sustainability.

The Fund must have the resources necessary to discharge its obligations as the central institution of the international monetary system. We have always been supportive of its mandate and of actions that will ensure that the institution remains strong enough to serve its purpose in the new environment of globalized markets. The prospect of a decline in the Fund's liquidity ratio to its lowest level since 1983 adds urgency to the need for an early completion of work on the Eleventh General Review of Quotas, and we urge the Executive Board of the Fund to do its utmost to reach a conclusion as soon as possible. It is our hope that the size of the increase in quotas will be of a magnitude that will ensure that the Fund keeps pace with the growth of the world economy and reflects the increased scale of international financial flows. We also welcome the progress that has been made in establishing the New Arrangements to Borrow.

The Enhanced Structural Adjustment Facility (ESAF) remains the centerpiece of the Fund's strategy to deal with the problems of low-income countries and has provided critically needed support for their adjustment and reform programs. We note the progress that has been made relating to the financing of the ESAF during the interim period and look forward to its timely implementation. An appropriate division between bilateral and multilateral sources of funding will be critical to a successful outcome. I am pleased to say that Pakistan is prepared to make a contribution to this effort in a spirit of fair burden sharing. We continue to support a strategy of optimization of the Fund's reserves, along the lines proposed by the Managing Director of the IMF, if bilateral contributions should prove insufficient to secure the full financing of this initiative.

It is difficult to hide our disappointment over the failure to reach a consensus on the SDR allocations as envisaged at the time of our Annual Meetings in Madrid. Nevertheless, in a spirit of solidarity, we are prepared to support a one-time move to equalize the ratio of cumulative SDR allocations to present quotas.

While the increase in the level of private capital flows to developing countries continues to be impressive, it has been unevenly distributed across regions. Thus, despite a near tripling in the level of foreign direct investment inflows in 1995–96 in my country, and the expectation that these inflows will continue to rise in future years as we continue to strengthen the foundations for private-sector-led growth, our need for concessional resources will remain substantial for some time to come. In this context, we are troubled by the unremitting decline in the ratio of official assistance to the GNP of donor countries, and remain concerned that donor contributions to the eleventh replenishment of the International Development Association (IDA-11) will remain inadequate to support even current levels of lending. It is clear that an adequate IDA remains a key ingredient for greater effectiveness in development assistance, in enhancing growth prospects in low-income countries, and in addressing poverty concerns.

Let me say a few words about the issue of good governance, which appears to have gained momentum and needs to be managed carefully. We in Pakistan are fully committed to the principles of good governance, and are conscious of the need to address the problem in a decisive and comprehensive way. But, given their apolitical mandate, the Fund and the Bank need to proceed with extreme caution in being drawn into an area that defies easy quantification, that entails subjective evaluation, and that requires symmetry of treatment between debtor and creditor governments, especially in the two-sided area of corruption. As emphasized by the Chairman of the Group of 24, we would ask that Fund and Bank concerns on the issue of governance be translated into a collaborative role of providing technical support for initiatives that are taken by member governments themselves and that are aimed at improving efficiency and accountability in state institutions.

May I conclude on the current economic situation and prospects in Pakistan. We have continued to pursue our agenda of adjustment and reform. Economic growth has improved, and inflation has started to show signs of easing. We recently implemented a tough budget that ran into fierce opposition at home and triggered an intense media campaign of exaggeration and disinformation. As a consequence, our relations with the Fund and the Bank have passed through difficult times in recent months. We are determined to restore the relationship to one of full cooperation and trust, and reaffirm our commitment to stabilization and reform.

STATEMENT BY THE GOVERNOR OF THE BANK FOR  
PAPUA NEW GUINEA*Christopher Haiveta*

I am privileged to have the opportunity to present my government's views on fostering further economic and social progress in the current and future world economic growth environment.

To this end, I share the views of my fellow governors that the increased world economic globalization requires the pursuance of appropriate fiscal and monetary policies and the undertaking of necessary structural adjustment programs to achieve sustained and broad economic growth.

I am pleased to announce that Papua New Guinea continues to enjoy the political stability that has now been successfully maintained over the past two decades, with the current coalition government enjoying a large majority in the parliament. The coalition is confident of leading the nation into and out of the next election, which is due in mid-1997.

Over the past year, we have continued to pursue with all our efforts gradual but consistent progress in solving long-standing difficulties on Bougainville. The attainment of real peace is of great significance for Papua New Guinea's social and economic future.

In economic terms, it will bring about an increase in agricultural production from what was once our most vibrant agricultural exporting province and reduce expenditures on security, freeing resources for development. The costs of rehabilitation and restoration of services on Bougainville are continuing to provide substantial challenges.

The question of the resumption of mining in the province is not of early priority and will take longer to resolve with the need to ensure that future solutions are socially and politically sustainable.

Another challenge faced by the government has been the implementation from 1996 of major provincial government reforms aiming to enhance effective delivery of goods and services to the majority of our people who are living in rural areas.

During the 1990s we have experienced continued strong growth in mining, and in petroleum and logging production, but growth in the rest of the economy has remained relatively subdued. The resource sector has provided substantial revenue but few jobs. Government revenue from the resource sectors allowed an expansion of the public service but failed to produce better services for our people. The public sector—particularly the national government—was not delivering goods and services in an efficient manner. Accordingly, many functions have been transferred to the provincial and local governments to improve the responsiveness to users of service delivery systems.

The reform will make it possible for the ordinary people to produce and benefit from their labor.

Over the past year, developments in the international economy have been generally favorable for Papua New Guinea.

Long-term sustainable growth with low inflation has been experienced in most of our trading partners, including Australia, the United States, western Europe, and most of Southeast Asia.

Sharp terms of trade improvements for Papua New Guinea through 1995 have largely been sustained to date through 1996.

The international prices of our major commodities continue to be mixed, although most are doing better than our 1996 budget price forecasts, including coffee, copra, cocoa, palm oil, logs, rubber, and, to a lesser extent, gold, the price of which has been stable though not spectacular. Our main recent price disappointment has been with regard to copper.

Offsetting this, the price of petroleum has been stronger than anticipated throughout 1996, and recent price hikes have been very beneficial for our fiscal and balance of payments outturns.

The current improved stage of the commodity price cycle is being used as an opportunity to repay debts that most of the agricultural commodity industries accumulated in the early 1990s as a result of unsustainable price-support schemes that we had in place at the time.

Savings from mining and petroleum windfalls are also being built up in the Mineral Resources Development Corporation, which has accumulated very significant net worth over the past decade, and which has recently represented the government's main vehicle for accumulating savings and wealth from mining and petroleum activities for the benefit of future generations.

The government is in the process of privatizing 49 percent of many of its mining and petroleum interests in a float that will be open to domestic and foreign investors.

The government's long-term reforms to restructure the economy continue to work toward opening up the economy and restructuring taxation, tariff, trade, and industrial policies and improving the levels of public investment and the delivery of public services. These reforms should assist economic growth over the medium term.

In the shorter term, the macroeconomy has now been stabilized following the relatively severe difficulties and instability we experienced in the second half of 1994.

The Papua New Guinea government continues to put on the fast track major private and public projects such as the Lihir gold mine, Gobe oil development, and major road and infrastructure projects, which are important to the economy in terms of economic growth and development.

With regard to structural reforms and the attainment of macroeconomic targets under the World Bank structural adjustment program and the

IMF arrangements, I wish to advise that, among other things, over the past two years we have taken the following actions:

- devalued and floated the kina in 1994;
- brought down the fiscal deficit from high levels to a manageable and sustainable level of about 1 percent of GDP;
- tightened monetary policy, introduced market-determined interest rates, and removed central bank guidelines for interest rate spread;
- reduced the size of public service;
- reduced import duties on a wide range of products in line with a medium-term trade liberalization strategy;
- announced a five-year timetable to reduce duties on selected items to internationally comparable rates;
- set up a national economic development forum to assist in promoting the development of the private sector;
- introduced surveillance and monitoring of log exports, provided adequate funding for the national forest authority, and introduced a code for conduct logging and a new forestry revenue system;
- introduced a new organic law for the decentralized transfer of additional funds for health, education, and infrastructure to provinces; and
- promoted the profile of nongovernmental organizations and representatives of the civil society.

Despite the undertaking of all these and many other actions, our reform agenda is not yet complete. We are now focusing increasingly on medium- to longer-term economic objectives and policies that aim to ensure the stable well-being of our people beyond the next budget and the next election.

While macroeconomic adjustments have been painful, they are not commencing to achieve the expected results.

Following the stabilization of the currency over the past 15 months, inflation is now sharply dropping back to levels close to our major trading partners and broadly consistent with our 1996 budget estimates of 6 percent for December 1996.

Growth in the nonmining and petroleum sectors is projected to expand by 4–5 percent over the medium term, and we are targeting our policies to achieve this.

The external sector has now been stabilized, in part through a return to positive capital flows in the resources sector. A strong overall balance of payments equivalent to 3–5 percent of GDP was recorded in 1995. Improved external performance is the result of the application of sound and

sensible economic policies. Significant overall surpluses are now being projected on the external account for 1996 and 1997 along with continued stability of the currency.

Following this brief review of our recent economic developments, let me turn briefly to review our relations with the Fund and the Bank over the last year.

The International Monetary Fund was initially very supportive of our economic reform program. This was reflected when their Board approved a Stand-by Arrangement of SDR 71.5 million in July 1995, although negotiations were quite protracted.

Although the implementation of the IMF program has in recent times been halted by differing views between the Fund and the government over macroeconomic program targets, we remain hopeful that, within the spirit of constructive dialogue and consultations that still remain, we can resolve outstanding issues.

I am sure that the Fund shares the view that the road to economic prosperity requires commitment, sacrifice, and hard work combined with the openness to understand constraints and timing considerations. Among the important constraints has been a fundamental inconsistency between World Bank structural targets and IMF macroeconomic targets.

Papua New Guinea nevertheless is very appreciative of assistance received during these difficult times and equally values its relationship with the Fund. Even after the time for the program has passed, and that time is rapidly approaching, the advice of the Fund will continue to be valued.

The government of Papua New Guinea has also attached high priority to maintaining stable macroeconomic conditions through prudent financial policies, recognizing that such stability is a vital precondition for attracting the private capital inflows needed to develop the country.

In this context, it is important that in undertaking macroeconomic adjustment policies to deal with temporary internal and external imbalances stemming from external shocks, we keep our long-term social and economic development objectives clearly in view.

The World Bank has been aware of our development needs and, to its credit, has moved quickly to provide assistance in the rehabilitation program following the Rabaul volcanic eruptions. We are appreciative of such support. Our relationship with the Bank has yielded a total of \$593 million in loans and \$112 million in credits over the years.

The implementation of Bank-funded projects and programs and the development impact of the Bank's operations on the ground cannot be isolated from the economic, political, and social environment in which we operate.

The combination of internal and external constraints has affected our performance in implementing projects effectively. We are, however, confident that the structural reform program, which the Bank and the Fund supported, has given us the opportunity to restructure our economy, to address

various constraints impeding the implementation processes arising from weaknesses of staffing, and to enhance project management and institutional capacities for the coordination and efficient delivery of basic services.

Our lessons from involvement with the Bank in the structural adjustment program have been, first, that we should never agree to structural and macroeconomic targets that are inconsistent with each other. Second, that letters of development policy must be worded in ways that provide the Bank with no scope for believing that we have ceded political sovereignty to them. Finally, we must ensure that the Bank and the Fund coordinate their efforts effectively and, at minimum, communicate with each other.

I must commend the Bank management for its decision to establish an operational office in Port Moresby last year to create a better understanding between the Bank and the government on policy and operational issues. We do feel, however, that the office can be made more effective if it is upgraded to full resident representative status.

We also take the opportunity to extend our appreciation to the Multilateral Investment Guarantee Agency and the International Finance Corporation for their interest and involvement in our development efforts. We look forward to their support in the future on our investment ventures.

I thank you for this opportunity for Papua New Guinea to outline recent economic developments and to provide a frank assessment of its relationship with the Fund and the World Bank Group.

For Papua New Guinea, the Fund and the Bank will remain very important institutions, and we are fully committed to continuing the close and frank working relationship in the years ahead.

I congratulate all the other Governors on their enlightening presentations. I trust that the sum of all our contributions will eventually provide tangible benefits for the developing nations of the world.

#### STATEMENT BY THE GOVERNOR OF THE BANK FOR THE PHILIPPINES

*Roberto F. De Ocampo*

The delegation from the Republic of the Philippines joins other delegations in welcoming Bosnia and Herzegovina as the newest member of the Bretton Woods institutions. We join the other delegations in congratulating Mr. Michel Camdessus for his election to his third term as Managing Director of the IMF. We also congratulate Mr. James Wolfensohn, President of the Bank, for his remarkable performance in the past year filled with challenges and for his able leadership and guidance in addressing the concerns of the Bank as well as of the developing world.

*World Economic Outlook*

We meet at a time of great promise and novel perils. These are the best of times, these are the worst of times. Growth in the developing world continues to set the pace for global expansion. This is reinforced by the continued dynamism of the U.S. economy and Japan showing signs of renewed vigor.

Still, major uncertainties remain for the long-term prospects of countries in Africa and the countries in transition. The rapid rise in prosperity, both across and within countries, has, at times, aggravated the gulf between the rich and the destitute. The global integration of capital markets has opened opportunities, as well as new risks that pose daunting challenges for authorities in host countries, market participants, and the international community.

*Challenges for East Asia*

Nowhere are these challenges more formidable and immediate than in east Asia. There, the changes have been most rapid and wide ranging—be it in market structures, output growth, political systems, urbanization, or demographic patterns. It is also in Asia where we find much pragmatism and eclecticism in seeking solutions to new problems. As such, east Asia might be called the workshop for reinventing the future.

The Bank's *Annual Report* identifies the salient characteristics of east Asia:

- rising integration of international markets, with growing trade, capital flows, and international migration;
- the transition by several countries from central planning to market-based economies, and its effect on two-thirds of the region's population who are entering the international market via trade integration;
- the transition from predominantly rural to predominantly urban societies, and the heavy demands on infrastructure this brings;
- the move by 30 percent of the workforce from informal to formal sectors, and the increased demand for skilled workers brought about by the structural changes that have occurred as countries move from agricultural to manufacturing-based economies;
- the rapid aging of the population, and its impact on the viability of social security systems and long-term growth; and
- environmental degradation, as deforestation has been more rapid in the Philippines than in any other region, and problems related to water availability and severe air and water pollution.

These challenges rise to a common agenda—an agenda for the countries in the region to address in partnership with one another and with the rest



of the world, particularly the Bretton Woods institutions. The key ingredients of this common agenda are by no means simple and easy: reducing poverty and achieving growth with equity; meeting growing infrastructure needs; developing the institutions for market economies; providing social insurance, managing structural change, and upgrading labor; and striking a balance between development and the protection of the environment.

Next month, the Philippines hosts the Asia Pacific Economic Cooperation (APEC) leaders' meeting in Manila. This will be more than a routine chore we perform for yet another regional association. It will be for us, in a sense, a coming-out party—an opportunity to showcase our recovery and signal our firm commitment to free trade. Over the past few years, we Filipinos have become more confident in our ability to compete globally and to thrive in a borderless world.

### *Challenges for the Tiger Club*

Within east Asia, a number of developing countries have had to cope with rapid changes and global integration of markets at an accelerated pace. Having, early on, taken to heart the lessons of getting fundamentals right and adopting market-friendly reforms, they have reaped its rewards early and in large volume. These rewards have been amplified by large flows of private capital, both direct and portfolio, in a virtuous cycle of confidence and success.

We know from Mexico's experience that this works two ways, and the virtuous cycle can easily turn vicious in even less time. The Mexican financial crisis was a strong reminder both of the potential impact of sudden changes in financial markets' assessments of a country's economic policies and prospects, and of the need for caution and self-discipline in macroeconomic policy.

Thus, questions have been raised lately: Are the tigers now troubled? Are they still frisky felines or drained dinosaurs?

### *The Philippine Case*

My country has been a latecomer to the tiger club and, for now, only lays claim to a growing tiger status. Perhaps for this reason, others have yet to see the Philippines as being an aging tiger. We are, nevertheless, careful to nurture hard-earned gains in securing the confidence of the financial markets that has facilitated our progress from being the "sick man of Asia" to being its rising star.

We have sought to maintain a fiscal surplus—now on its third consecutive year after two decades of deficits. This has helped to raise the level of domestic savings and bring down inflation to single digits along with the risk premium on interest rates.

The fiscal surplus has also helped limit the nominal appreciation of the exchange rate and an ensuing loss of competitiveness that would have accompanied foreign capital flows. Without such fiscal surpluses, the ability of the monetary authorities to buy foreign exchange would have been constrained by tighter monetary ceilings.

Our central bank was able to increase its gross reserves to a record high of US\$11.4 billion from only US\$4.5 billion five years ago. At the same time, we limited our recourse to short-term borrowing to 14 percent of total external debt, even as total external debt was brought down to 49 percent of GNP from 88 percent ten years earlier, and debt service down to 14 percent from 36 percent over the same period.

Through careful demand management and a market-determined exchange rate policy, the current account deficit as a percentage of GNP has been kept manageable at 2.6 percent in 1995—a further reduction from the 4.5 percent level in 1994.

Macroeconomic stability and structural adjustment reforms, covering the trade and payments regime, banking liberalization, privatization, deregulation, and market confidence have resulted in a GNP that grew steadily, from almost nothing in 1992 to a sustainable 5.5 percent in 1995. This growth was driven by exports and foreign investment flows, which grew at 31 percent and 46 percent, respectively, last year. For 1996, we are optimistic that the Philippine economy will gain further momentum with a growth rate of 7 percent.

We are now halfway through our “exit” program with the IMF and by this time next year, we expect to graduate from the IMF after two decades of almost uninterrupted recourse to its programs. This is no reason, however, for complacency. We still have the phenomenon where many of our people prefer to seek employment abroad, and there continue to be pockets of poverty in our country that have to be brought down to much lower levels. We have no illusions that our exit from the IMF signals our opportunity to relax. On the contrary, it means that we will be under tighter surveillance by the private capital markets, perhaps a tougher master, whose confidence has to be earned every second of a 24-hour trading day. We welcome it, for, as we have discovered, good governance can be a tool for global competitiveness.

### *Conclusion*

We have established a strong foundation for long-term, sustainable economic growth. We have put in place outward-looking and investor-friendly economic policies. And, with the signing of a peace agreement between the government and a rebel Muslim group, we have shown that a country of different religions and ideologies can live in peace and brotherhood and, at the same time, achieve economic progress.

We are determined to build a new model of third-world economic development, where there is a balance between growth and equity, modernization and environmental consciousness, peace and progress, and where growth is private sector led—all in the context of a democratic system of governance. The challenges ahead are formidable. But, this is the choice that we have made, and, with vigilance, this is the choice that we will follow. For, certainly, in today's world, eternal vigilance is the price, not only of freedom, but also of prosperity. We have chosen both freedom and prosperity, and we invite partners abroad to participate in their exercise and rewards. Born in the 1990s, we are confident that this new Philippine tiger—a gentler, kinder one—is fit for the next century.

STATEMENT BY THE GOVERNOR OF THE FUND FOR POLAND

*Grzegorz W. Kolodko*

In the Madrid Declaration, adopted two years ago, in the first paragraph a fundamental drive for the economies in transition is identified: their necessary integration into the international economy and setting them firmly on the path of sustainable growth. We have taken this direction with full determination.

For seven years, Poland has been removing barriers on its way to this integration. Continuous progress in stabilizing and restructuring the growing economy, the acceptance of the obligations under Article VIII and the liberalization of capital flows, reductions in tariffs, and adjustments in legislation and legal procedures to international standards have been major components of redesigning the Polish economy to develop its underlying potential.

We have entered successfully the international financial markets. This in itself would already have been evidence of the remarkable economic performance. The investment grade we have obtained recently from the rating agencies, based on investment risk assessment, is close to the levels of more advanced economies, and provided a further recognition of the outstanding progress made by my country.

The invitation extended to Poland last July to join the Organization for Economic Cooperation and Development (OECD) gives us the stamp of approval as an open, advanced market economy, thus concluding a stage in transition. I may say, we have made it!

Although our way to the transformation into a full-fledged market economy is more straightforward nowadays than a few years ago, and the

many signs of strong and viable recovery on the real side reconfirm our steady progress in achieving the long-run targets, these bright lights have not been the only signals we have received. In the shadows remains a relatively resilient inflation that should be mentioned. Despite decreasing inflation—which fell from 70 percent at the end of 1990 to about 17 percent at the end of 1996—inflation is still causing several problems, and countering it is one of the priorities of our policy. The rate of inflation is expected to decline by end-1997 to 13 percent and to a single-digit figure within a year and a half or so.

With gains in terms of credibility, and inflation still high by international standards, the exposure of the economy to short-term foreign capital flows increases. The policies that aim at their containment are costly for the recipient countries. These policies also require continuous monitoring of the respective trends in individual countries and groups of countries in their actual and expected macroeconomic indicators. There is a relationship between the intensity of capital movements and capital exporters' economic performance. Thus, the indicators of concern should cover not only the emerging markets, but also industrial countries as major short-term capital exporters. The Fund's strengthened surveillance mission would help reduce or avoid this dramatic need in the future. The Special Data Dissemination Standard, which we accepted in April, should be essential in this respect, contributing to the provision of timely and comprehensive economic and financial data. Notwithstanding the improved statistical basis for surveillance, we strongly appreciate the Fund's recent search for a more adequate approach in terms of a qualitative assessment of macroeconomic adjustment and an increased insight into structurally important areas, both crucial for the performance of economies in transition.

Paying necessary attention to the quality of adjustment does not mean neglecting its social aspects—on the contrary. An ultimate aim of economic policies is the social welfare. The results of the economic growth have to be shared by society as a whole. This implies necessary public expenditure on education and health to maintain the investment in human capital at levels high enough to allow the country to be competitive on the international front, and to restructure those sectors in order to increase expenditure efficiency.

Poland—like many other countries in transition in east and central Europe and the former Soviet Union—had experienced bitter years at the onset of transformation to a market economy. Deep transitional recession, declining output, and high inflation had caused a deterioration of the standard of living. This hardship to some extent was unavoidable, but to some degree, was due to policy mistakes. The financial policy pursued in the early 1990s had caused the so-called perverse effect of fiscal adjustment. The industrial output in Poland had contracted in 1990–92 by 40 percent in real terms, and GDP fell by 18 percent. Contrary to this, in 1994–96 real

GDP has increased by close to 20 percent. Since this increment is export and investment led, the growth of the Polish economy is sustainable and will bring the Polish GDP to about US\$200 billion by the year 2000.

The budget deficit was close to 7 percent of GDP in 1992. Since 1993 it has been below 3 percent and currently stands at only 2.7 percent of GDP—well below the Maastricht criterion. Only in 1994–96 has the real consumption of the household sector jumped by 15 percent, and about half a million new, internationally competitive and better-paid jobs have been created. During the same three-year period, as much as US\$8 billion of foreign direct investments have been absorbed by the economy, thus raising our export ability. Close to 80 percent of the record-high Polish exports nowadays goes to the OECD countries.

Such an improvement has been achieved by the successful implementation of the medium-term development program “Strategy for Poland.” The more gradual but very determined policy of macroeconomic stabilization, accompanied by adequate public finance reforms, has started to bring the fruits of transition to Polish society—both the enterprise and household sectors alike. This new approach, implemented three years ago, is based upon comprehensive structural policy, tough monetary policy, and sound fiscal policy. But it is also compatible with social partnership and a negotiable incomes policy. This set of policies continues the economic liberalization initiated seven years ago, but simultaneously a different structural policy, improving microeconomic efficiency and upgrading the competitiveness of the Polish economy, has been introduced. For some time, the Polish economy has really soared like an eagle, although it is often called “the tiger of Europe.” After the period of “shock without therapy” the policy of “therapy without shock” is being exercised. And this is a program that works.

Against this background and in light of the experience of a thorny process of structural adjustment through which the economies in transition are going on the eve of the twenty-first century, the IMF and World Bank declaration on “global partnership for sustainable economic growth” has to be supported. Poland and other economies in transition appreciate the financial and technical assistance that has been provided by the Bretton Woods institutions during this difficult period. A part of the credit for the recent success of the Polish economy is due to the IMF and the World Bank, and I would like to express my gratitude to the staff of these institutions and especially to the Managing Director of the Fund, Michel Camdessus, and the President of the World Bank, James Wolfensohn.

Transition to a market economy in our part of the world is also a process of learning by doing. I am glad that we were not only able to learn from the others, but also the staffs of the Fund and the Bank have drawn the proper conclusions from our experience on what works and why, and what does not work and why. We are ready to share our knowledge on the

economics and politics of transition with those who believe it would be wise to follow the Polish model.

However, the continuation of efforts to stabilize the economy and to sustain sound economic development on the path of liberalization of international trade and successful structural adjustment calls for further engagement of the Bretton Woods institutions. Therefore, I would like to declare our full support for the solidarity of the international community mobilized and promoted by Mr. Camdessus and Mr. Wolfensohn in their initiatives on the strategy to meet the challenge of poverty. The concrete proposal on the financing of a continuation of the Enhanced Structural Adjustment Facility (ESAF) and the heavily indebted poor countries (HIPC) initiative is appealing. Among the three groups of partners involved, the governments of the poorest countries, the donor community, and the international financial institutions, we have been ready to take our part in this effort. Notwithstanding our share in the contributions to ESAF financing, we are ready to reduce our claims in bilateral negotiations with those of our debtor countries that are on the list of those covered by the Fund and the World Bank initiative.

I do believe that, owing to our joint efforts, our ability to learn from each other, our openness to new ideas, and our willingness not only to teach but also to listen, the Bretton Woods institutions can serve still better the purpose of world economic development and peaceful international cooperation. We are ready to take advantage of these activities and to contribute to them in the best possible way.

#### STATEMENT BY THE GOVERNOR OF THE BANK FOR PORTUGAL

*Antonio de Sousa Franco*

It is a pleasure for me to address the 1996 Annual Meeting of the International Monetary Fund and the World Bank.

The world economic outlook sounds encouraging. Growth prospects are improving in many regions of the world such as Latin America and Africa. Many structural changes are also taking place in international and national economies. But let me focus on Europe. As the President of the Council of the European Union (EU), Mr. Quinn, has reported yesterday, the EU economy is recovering in a slow but consistent path that is expected to accelerate next year. Europe is in the midst of profound changes. The project of building an Economic and Monetary Union (EMU) is progressing well and on the right track. Recently, new rules for budgetary pol-

icy coordination have been agreed as an essential part of the viability of the EMU. There is, of course, much to be worked out on political, social, and economic levels. But the EMU is nevertheless the most substantive issue for the strengthening of the Union.

Last year, unemployment in the European Union reached very high levels as a result of several causes, among which is the increased international competition as the world economy becomes more and more globalized. There are, of course, domestic reasons as well, such as those related to labor markets and to the restructuring of productive structures and technologies. The promotion of high levels of employment, essential to avoid social exclusion, to promote economic welfare, and to fight poverty and injustice, requires the adoption of sound policies, both at national levels and under EU and international cooperation and coordination. Growth and employment are becoming, with globalization, more and more global problems and call for supranational policies.

On the other hand, to create political support for the construction of the EMU, it is necessary to reinforce the social aspects of economic policy. Thus, there is a real need for advancing with policies toward employment and equity along with increased competitiveness. Progress on the employment front would result from increased flexibility in European economies in the context of a stable macroeconomic environment provided by the monetary union.

Moreover, the future of Europe requires also a political design, which cannot be a copy of existing models; the EMU is, thus, part of an overall challenge for all of us Europeans who care about the responsibility for achieving a society with a human face in peace and offering prosperity, social cohesion, and solidarity.

Portugal is fully committed to monetary union and has adopted convergence policies and measures to fulfill in 1997 the conditions for participating in the third phase of the EMU. Progress on fiscal consolidation has been obtained. We expect to reduce the fiscal deficit to 4.1 percent of GDP this year, compared to 6.9 percent in 1993. The Portuguese government has set the goal of a deficit of 2.9 percent in 1997, which requires efforts in containing expenditures, improving tax administration, and adopting new measures concerning the reform of the social security system. Public debt is set to fall to 70.7 percent this year, from 71.5 percent of GDP in 1995. As a result of the acceleration of the privatization program and improved debt management, this ratio should fall again next year.

The current upturn in major European economies should provide further stimuli to our growth, improving conditions for further reducing fiscal deficits. We expect for 1997 a 3 percent growth, higher than that of 1996.

The stable external value of the escudo during the last years has been instrumental in the disinflation process. The Portuguese annual inflation

rate, at 3.3 percent, is only 0.8 percentage point above the EU average. Significant progress has been achieved without too much pain. The 1997 objective is a further decline in inflation, bringing the rate to between 2¼ and 2½ percent.

Another clear sign of improvement is given by the cost of public debt. The ten-year treasury bond yield is currently less than 2 percentage points above the equivalent German rates. Last year, this gap was more than 4 percentage points.

My country's commitment to the single currency in 1999, according to the calendar and convergence criteria, is as strong as our commitment to Europe. In our competitive world, Europe has to forge ahead, building up new institutions to sustain prosperity, reinforce competitiveness, and resist the temptation of falling behind. This is also true for Portugal, as its future is enmeshed with that of Europe; like other European countries, Portugal achieved prosperity and progress when it was opened up to the world, maximizing the opportunities thereof. The point is that we face real conditions of free trade and fair trade, without the acceptance of a new focus on dumping, on social and ecological issues, or others.

Turning now to our agenda. Poverty reduction and improving living conditions continue to be the ultimate purposes of our institutions as well as of our governments. Sustainable development is—and shall remain—the first of the world's goals as the main root and foundation for peace. We all have to address these challenges within our boundaries and worldwide, both in the North and in the South, for we shall succeed or fail together.

Multilateral cooperation remains central to this endeavor. Despite difficulties since our last meeting, we have to remember the conclusion of the negotiations for the IDA-11 and the replenishment of the African Development Fund (ADF). These negotiations have undoubtedly illustrated several issues of great concern. We can remark, indeed:

- the continued high level of demand by developing countries;
- in spite of signals for hope and visible progress in various countries, sub-Saharan Africa is still facing important difficulties to take off from extremely low economic and social levels; this region has not been able to attract significant private investment and continues dependent upon development assistance; and
- the severe budgetary constraints in donor countries are forcing a more efficient and selective allocation of assistance and even cuts in some countries.

Within this uneasy framework and despite our fiscal constraints, Portugal has increased its contribution to IDA-11 and has kept abreast with partners in other replenishments. Particularly, I would like to emphasize the special efforts Portugal and several other donors committed to ADF-7.



Again, in this Assembly, our multilateral effort has been called upon. The debt initiative is at the core of our deliberations. It will contribute to solving the problems of those countries facing an unsustainable debt situation. We warmly support this initiative to assist the poorest countries. We attach particular importance to key elements such as:

- the full commitment of beneficiary countries to adopt strong economic policies;
- the compliance with agreed basic principles, in particular those to preserve the financial status of our institutions; and
- the equitable and broad participation of all creditors in the initiative.

Furthermore, the increasing scarcity of resources requires that they be allocated to those countries where they are most needed and are most effectively used. Portugal congratulates President Wolfensohn and Managing Director Camdessus for this far-reaching initiative. Its successful implementation requires the efforts of all member countries.

I am pleased to announce today that Portugal is prepared to contribute to the financing of the ESAF and encourages others to do so.

STATEMENT BY THE GOVERNOR OF THE BANK FOR THE  
RUSSIAN FEDERATION

*Vladimir Potanin*

On behalf of the government of the Russian Federation, it is my pleasure to welcome the participants and guests of the Annual Meetings of the World Bank Group and the International Monetary Fund. We are pleased with the results of the activities of the Bretton Woods institutions in the 1996 financial year. Much has been done by them to ensure the stability of the international monetary system, create favorable conditions for sustainable economic growth, and mobilize the transfer of resources to developing countries and economies in transition. Their activities were carried out against the backdrop of complicated political, social, and economic developments in various regions of the world.

Over the past year, the economic situation around the world has been uneven. Differences were particularly pronounced among industrial countries, which account for the lion's share of world trade and capital flows, and which objectively act as the driving engines of the global economy. The continuation of relatively stable economic growth in the United States

and a rebound in the Japanese economy were accompanied by a slowdown in economic growth in western European countries, which face complicated structural problems in an environment of growing trends toward globalization and integration in the world economy. Economic growth in many developing countries was more dynamic, although growth did vary widely by country and region. While some of them managed on the whole to maintain stable growth rates, the social and economic indicators of a number of others continued to be a cause of serious concern. In this regard, we are troubled by the recent trend toward a reduction in official development assistance in real terms, which is especially painful for the poorest countries that are not particularly attractive to private capital. Differentiation among economies in transition is growing. Following the first stage of reforms, some countries managed to resume economic growth and improve the living standards of the population, and now they are attracting significant foreign direct and portfolio investments, while others, including a number of the countries of the former Soviet Union, have not yet emerged from a state of economic recession.

We are pleased to note that there has been a certain stabilization of the situation on the international foreign exchange and capital markets, which is largely due to a gradual optimization of monetary and financial policies in the majority of countries around the world. The IMF deserves a great deal of credit for this. We are also encouraged by the fact that the capital inflows into developing countries have broadly returned to the level that existed prior to the financial crisis in Mexico in late 1994. Nevertheless, the emerging new risks and volatility in the operations of commercial and investment banks, including those in the industrial countries, and the changing foreign exchange structure of external borrowing of a number of countries, which involves significant future foreign exchange risks, are worrisome.

The lessons of world economic development reconfirm the necessity to maintain macroeconomic equilibrium as an essential condition for non-inflationary growth. At the same time, a substantial contribution toward attaining sustainable socioeconomic growth can result from the choice of the proper goals and instruments of state regulation of the economy. This is particularly relevant to the regulation of the financial, banking, and external sectors. Specifically, developments in recent years mandate a more cautious approach in assessing the role of portfolio investments in the national economy. An active use of this source of financing places special demands on the quality of the national banking supervision system, and monetary and foreign exchange regulation.

A well-designed structural and investment policy, aimed at maintaining and developing the crucial elements of the national production infrastructure, takes on particular importance in transition and developing economies. An active social policy also plays a critical role in ensuring stable social and economic development.

Objectively, the International Monetary Fund has to play a larger role at a time of growing interdependence in the world economy and the increased importance of international capital flows. The Fund has the unique capacity for obtaining current and objective information on the monetary and financial situation in member countries for early diagnosing and preventing of potential crises. We commend the Fund's efforts aimed at maintaining balanced macroeconomic and structural policies, stability, and order in the international monetary system.

In light of the growing demand for the Fund's resources by the countries that are pursuing profound macroeconomic and structural reforms, and also with a view to maintaining at an adequate level the Fund's preparedness to provide assistance to member countries in overcoming sudden financial shocks, it is necessary to substantially strengthen the financial basis of the Fund as soon as possible. Efforts in this area should be directed primarily at the speedy completion of work on an increase in the Fund's own capital within the framework of the Eleventh General Review of Quotas. Russia supports the proposal by the Managing Director of the Fund to double the Fund's quotas and would favor implementing it primarily on an equiproportional basis.

Generally, we believe that the Fund should remain an institution whose financial basis rests upon its quotas, while borrowing arrangements by the Fund should play only a complementary role. We welcome the progress in expanding the group of the Fund's potential creditors beyond the list of participants in the General Arrangements to Borrow. Nevertheless, in our view, development of this initiative should not substitute for or delay the work on the quota review.

To our deep regret, Russia and 37 other Fund members have so far not been given the opportunity to participate fully in the SDR mechanism. Once again, we call upon all Fund members to demonstrate the necessary will to reach a compromise in order to resolve this "problem of equity." We welcome the constructive attitude of those countries that have already indicated their willingness to support the formula for resolving this matter proposed by the Managing Director. Now it is necessary that the rest of the membership make their move toward the compromise on all remaining unresolved aspects of the proposed solution. It is our hope that the Fund will finally manage to leave behind the stage of declarations and consultations on this subject, and take up the practical aspects of the decision to allocate SDRs in the near future.

We regard positively the efforts of the World Bank Group aimed at promoting stable economic growth in borrowing countries, poverty alleviation, improvement in the functioning of public institutions, and development of the private sector. We note with satisfaction that the Bank is at the center of recent major initiatives to assist countries in overcoming the consequences of armed conflicts and restoring the economies of countries that were vic-

tims of such conflicts in various regions of the world, and in obtaining urgent relief for the heavily indebted poor countries. We also regard with understanding and support the efforts by the IBRD leadership to bring about changes in the Bank's policies, working style, and methods.

At the same time, the Bank's participation in these initiatives, as well as changes in its internal organizational structure, should not interfere with its main activities in providing support to sovereign borrowers. In particular, we are concerned with the attempts on the part of some Bank members to use the mechanism of its revenue generation and distribution to shift the burden of supporting the poorest countries onto other borrowers. To avoid crisis situations, such as the one that the heavily indebted poor countries (HIPC) initiative is trying to address, the Bank should accord timely attention to identifying the sources of the funds to repay its loans and credits as early as at the stage of drafting the country strategies and developing specific projects. In its country portfolios, the Bank should increase the share of projects that promote development of the productive base, diversification of the economy, and the export potential of the borrowing countries.

The Bank's activities are especially important for Russia during this critical period in the country's development, when it has come very close to resuming economic growth under the new conditions of macroeconomic stability and profound structural change. Over the past period, the Bank has demonstrated that it is capable of responding quickly by assisting its borrowers in dealing with complex problems of their development, which has particularly been the case in the preparation of the loan in support of the structural reorganization of Russia's coal industry. We count on the Bank's continued support in implementing a number of investment projects that are necessary to provide the structural reforms with the investment underpinning that is a real basis for the economic recovery.

In conclusion, I would like to say a few words about the state of Russia's economy. Despite the remaining economic difficulties and a complicated social and political situation, Russia perseveres with the course of financial stabilization and continues to carry out structural reforms, which, we are convinced, are an essential condition for future balanced growth of the Russian economy. The results of the last quarterly review of the progress under Russia's Extended Arrangement show that all main performance criteria under the government's program have been met, and, in some areas, with considerable margins. Of great importance for the further course of reform in Russia is the decision to adopt obligations under Article VIII of the Fund's Articles of Agreement, which provide for the convertibility of the national currency for all current account transactions. This year, Russia reached an agreement with commercial banks of the London Club of creditors on debt rescheduling, which constitutes an important condition for regaining the country's access to in-

ternational capital markets. A similar agreement is being prepared with other commercial creditors.

However, the situation is rather difficult regarding the execution of the budget in the areas of tax collection, servicing domestic debt, and supporting the social sphere. The government has recently adopted a package of measures aimed at correcting the situation in these areas and further overall strengthening of fiscal discipline. Implementation of the program of structural reforms agreed with the Fund, including continuation of the process of privatization, restructuring of enterprises that remain in the public ownership, and regulation of natural monopolies, will be considerably accelerated. The draft federal budget for 1997 provides for the continuation of the austere anti-inflationary course, and further reduction of support from the budget to industry and agriculture in real terms. It also envisions the broadening of the revenue base through reduction of tax breaks and introduction of new types of taxation.

While adopting austerity measures in the fiscal area, we, nevertheless, understand their limited nature. We believe that the root causes of many of Russia's financial difficulties are related to the continuing economic downfall, and, in particular, the profound investment crisis. Recent developments show that macroeconomic stabilization is a necessary, but far from sufficient, condition for Russia's economic rebound. Economic recession, combined with tight fiscal and monetary policies, has already resulted in a sharp deterioration of social indicators.

For this reason, we still consider as two priority areas of Russia's cooperation with the Fund and the Bank their continued support of our course of macroeconomic stabilization and structural reforms, and their assistance in the implementation of the government's social policy measures. I am certain that further cooperation with the Bretton Woods institutions will make an important contribution to the implementation of the program of restoring economic growth and raising the living standards of the population of Russia.

STATEMENT BY THE GOVERNOR OF THE BANK FOR  
ST. KITTS AND NEVIS

*Denzil Douglas*

I have the honor to speak on behalf of the Caribbean Community and Common Market (CARICOM), namely Antigua and Barbuda, the Bahamas, Barbados, Belize, Dominica, Grenada, Guyana, Jamaica, St. Lucia,

St. Vincent and the Grenadines, Suriname, and Trinidad and Tobago, and my own country St. Kitts and Nevis.

The fiftieth anniversary of the Bretton Woods institutions two years ago stimulated the debate on the current role and mission of the Fund and the Bank. That debate has been accompanied by an effort in both institutions to shape strategic new policies that will guide their work for many years to come.

### *Debt*

Prominent among these new policies is the joint work of the World Bank and the IMF to reduce the debt of the heavily indebted poor countries. We are pleased that the extremely complex issues holding up this initiative are now largely resolved and the way is clear for all partners to play their part. Beyond this vitally important debt initiative, we must continue to keep the overall question of the debt burden of developing countries under close review. The experience of the last 15 years has taught us that, progress notwithstanding, there is never a point where concerns over debt are finally settled. We must stand prepared to examine rigorously and dispassionately what further advances we can usefully make to reduce the onerous debt position of other countries.

### *IMF Issues*

We strongly support the broad thrust of the efforts to strengthen the finances of the IMF, since there must never be any doubt in the international financial system that, with the appropriate conditionality, the Fund has the capacity to respond to the ordinary and emergency financing needs of any member.

Quotas must continue to constitute the centerpiece of the Fund's financing. We regret, however, that in spite of the extensive discussion, there is as yet no conclusion on any of the principal elements of the Eleventh General Review of Quotas currently under way. We continue to support a doubling in quotas to ensure the capacity of the Fund to meet the likely financing needs of members while maintaining a comfortable liquidity margin. We also believe that a major portion of any quota increase should be distributed equiproportionally, even as efforts are made to address each selected case where a member's position in the world economy is markedly out of line with its quota share. Further, in order to avoid any precipitate erosion of the voting power of small developing member countries of the Fund, we suggest that the ratio of basic votes to total votes be restored to the level that obtained at the inception of the Fund and that this ratio be made permanent. We in CARICOM look forward to seeing substantial progress on the quota review exercise in the coming months.

We welcome the solid progress made toward enlargement of the borrowing arrangements of the Fund, and are particularly pleased that the group of countries participating in the new system is being widened considerably, with the likely inclusion of emerging market countries. We agree that the borrowing arrangements should not be seen as a substitute for a substantial increase in quotas, that access to these additional resources should only be in exceptional circumstances, and that disbursements should be speedy.

We are greatly encouraged that the IMF has made progress in structuring the financing arrangements for maintaining the operations of the Enhanced Structural Adjustment Facility (ESAF) up to the time when there will be a smooth transition to a self-sustaining facility. The provision of resources for maintaining ESAF is worthy of broad-based support, and countries of our group are favorably disposed to making our contribution. We also support proposals to use a very modest amount of the Fund's gold holdings to mobilize resources for ESAF in a manner that preserves and enhances the reserves of the Fund.

We in CARICOM believe that there is a continuing role for the SDR and have supported a new general allocation, along with action to address the equity problem. We are pleased that some progress has been made on the SDR issue, on the basis of the most recent proposals tabled by the Managing Director. We urge that the matter be concluded early with a special allocation of at least SDR 26 billion.

### *World Bank Issues*

Let me turn now to Bank issues. We are pleased, Mr. President, that your efforts have secured a satisfactory outcome to the eleventh IDA replenishment of the International Development Association, and we note with satisfaction that the continued access of vulnerable small island states to IDA resources has also been protected under the current agreement. We are pleased to welcome Barbados, one of the countries on whose behalf I speak, to the ranks of IDA donors.

We look forward to an expanded role for the International Finance Corporation (IFC) in the development of the private sector in CARICOM, especially in countries that have been graduated from the status of borrowing members of the Bank and yet have a long way to go in developing a private sector capable of playing an expanded role in economic growth and development, and in employment creation. The IFC can provide assistance to the private sector in areas such as project development, evaluation, and financing, and in financial sector development. We look forward to working with the IFC as it creates new facilities and as it makes a greater effort to understand and serve the needs of smaller member countries.

We must return to graduation from the Bank, an issue of great concern to us. The Bank should reexamine its graduation policies to ensure greater

flexibility in the application of its guidelines and to ensure that the decision to graduate is made when the graduating country is on a sustainable path. But even where graduation has taken place, we urge the Bank, as a minimum, to continue to provide critical technical assistance, which is often needed to help members stay on a sustainable path.

We remain convinced that the decision to graduate the tiny vulnerable country of St. Kitts and Nevis from the use of IDA resources was premature. It has been our experience that the donor community views IDA graduation as a signal for the reduction of the level of development assistance to a country. The fiscal, economic, and social impact of such sudden and dramatic reduction of development assistance has been very severe and debilitating. Mr. President, Caribbean Community heads of government were indeed pleased at the opportunity for our exchanges with you in Guyana in March, and we were heartened by your understanding of our concerns. We look forward to continuing the joint search for appropriate solutions.

Last year an unusual spate of hurricanes destroyed the entire productive capacity of Antigua and Barbuda, the banana crop, and significant portions of the infrastructure of Dominica, as well as causing considerable damage in St. Kitts and Nevis. When we met with you, Mr. President, we asked for assistance with a disaster mitigation program. We welcome the response of the Bank so far and hope that the work that is going on will bear fruit before the next season of hurricanes is upon us.

In June this year we had another successful Caribbean Group for Cooperation and Economic Development (CGCED) meeting. Donor interest in the region has remained high even though resources have practically dried up. We continue to look forward to an improved flow of resources to our countries to support domestic efforts toward sustainable growth. Through you, Mr. President, we again wish to thank Bank staff for their efforts in organizing the CGCED and we look forward to our close cooperation and joint action when the findings of the review team help us identify the way forward for the CGCED.

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

*Rodrigo de Rato Figaredo*

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STATEMENT BY THE GOVERNOR OF THE FUND AND  
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This is the first time I have addressed the Annual Meetings of the International Monetary Fund and the World Bank, and it is an honor and a

pleasure. I also find it encouraging to be doing so at a time when the prospects for the global economy are good.

### *The Global Economy*

Worldwide, GDP is increasing by more than 3.5 percent in real terms, and the IMF expects growth to exceed 4 percent in 1997. Attention should be drawn to the special contribution made by the developing countries, particularly the emerging economies. For 1996, the anticipated growth rate for the industrialized countries is 2.3 percent, with a 1.6 percent average for European Union members. In 1997, we expect the economic growth rate in the industrialized countries to be about 2.5 percent, and this is also the average anticipated for the European Union.

These prospects of increased growth in all countries, including those of eastern Europe, coincide with historically low inflation rates in the industrialized countries (2.4 percent in 1997), and with encouraging progress in the reduction of inflation in the developing countries, particularly in eastern Europe.

### *The International Monetary Fund*

As regards the surveillance function of the IMF, we regard the Fund's implementation of the Special Data Dissemination Standard as a very positive step, and Spain has subscribed to it since its introduction. We trust that the establishment of a generalized standard for all members can soon be finalized.

With respect to the Fund's financial resources, Spain firmly supports an increase in quotas—which constitute the Fund's principal and basic resource—as a means of responding to members' financing needs. It is most important that this general increase in quotas contain an ad hoc component to reflect institutionally the relative positions that economies such as that of Spain occupy in the global economy in such a way as to eliminate the differences existing in a small number of countries between theoretical quotas and real quotas.

On this same subject of resources, I would like to emphasize the importance of the agreement to double the lines of credit provided for the Fund. Spain has contributed toward the doubling of these resources under the New Arrangements to Borrow, which we hope will become an effective tool for dealing with balance of payments problems that have potential systemic implications.

As regards the Fund and Bank's initiative for enabling heavily indebted poor countries that adopt appropriate policies to achieve debt sustainability in the medium term, I would also like to affirm our support for an agreement in principle to guarantee IMF participation

through a continuation of the Enhanced Structural Adjustment Facility. It is also important that a final agreement be reached on the equitable allocation of new special drawing rights, and such an agreement is now within reach.

Finally, I must congratulate the Fund's Managing Director, Mr. Camdessus, on his election for a third term. The substantial progress made in the Interim Committee is evidence of the skill and intelligence he shows in achieving agreement among the members.

### *The World Bank*

Under the leadership of its President, Mr. Wolfensohn, the World Bank Group has deepened and broadened the process of change launched over a year ago. We trust that this process, together with the introduction and development of a large number of initiatives within the framework of a reduced budget, will serve to strengthen and reinvigorate the Group and enhance the impact of its policies in the developing countries.

Over the past fiscal year, the Bank has played a crucial role in the rehabilitation of the economy of Bosnia, in close cooperation with the European Union and the international donor community. Now that Bosnia and Herzegovina is a member of the Bretton Woods institutions, we hope that progress can be made in normalizing its economic life. I would like to draw attention to the Bank's prompt and skillful action in the face of this emergency, and the efforts made to strengthen the institution so that it will be able to deal with similar situations in the future.

There can be no doubt that the conclusion of the negotiations on the eleventh replenishment of the International Development Association (IDA-11) was a complete success. Despite the problems encountered during the process, the successful outcome is proof of the support shown for the International Development Association's objectives, namely, to promote economic growth in the poorest countries and to alleviate poverty by taking action on a multilateral basis. My own country has provided unconditional support for this process, and the government has increased Spain's contribution to this new replenishment.

### *The Spanish Economy*

I would now like to refer to the current situation and probable trends in the Spanish economy. The Spanish economy is now on a path toward sustained economic growth, with anticipated growth rates of 2.3 percent for 1996 and 3 percent for next year, both rates being higher than the European average. The following are basic elements in this process:

- budgetary policy;
- structural reforms; and
- the enhanced role of the private sector in the economy.

This is a medium-term strategy, the final objective of which is employment creation. To be successful, it is necessary to achieve sustained growth; i.e., at the same time as measures for maximizing growth potential are adopted, basic economic disequilibria must be corrected. We need a more flexible economy with low inflation, sound public sector accounts, and low real interest rates.

From the outset, the new government adopted a broad set of measures designed to achieve these aims. First, in June a group of structural reforms were introduced in order to liberalize key sectors of the economy and both revitalize activity and reduce inflationary pressures. The sectors in question were telecommunications, land and housing, professional associations, and energy.

At the same time, fiscal reforms were introduced to promote job creation in small- and medium-size enterprises, and savings taxation (as applied to capital gains and corporate balances) was overhauled in order to foster increased efficiency in the use of savings.

Second, the government is attaching the following guidelines to the budgets it has introduced for 1997:

- Increased budgetary discipline. Measures have been adopted to ensure that budget execution corresponds to initial plans, eliminating the existing scope for discretionary action.
- Limits on increases in government expenditures in 1997. Spending will not increase by more than 1.7 percent in nominal terms (or 2.1 percent in the case of the central government). Given the objective of achieving a 2.6 percent inflation rate, this represents a reduction in spending in real terms.
- Maintenance of government capital investment capacity as the best form of contribution to internal demand. This includes the promotion of projects with joint government and private financing.
- Increased control of fraud in social support services. Improvements in their management are also to be implemented.
- Containment of overall fiscal pressures. This will be accomplished by using the least inflationary taxation categories.

The effects of these measures can already be seen in the form of market confidence and stability, so that our long-term interest spread is at a historic low, only 180 basis points above the Bundesbank's 10-year bond rate. We are also making progress on reducing inflation, and by the end of next year, the rate will be 2.6 percent. The government will in-

tensify the process of liberalizing the economy and reforming the basic sectors.

Overall, the Spanish government considers macroeconomic stability and structural reforms as the most appropriate means for achieving sound and sustained growth, which will lead to employment creation combined with low inflation.

The economic policies applied by Spain are fully consistent with Europe's plan for achieving economic and monetary union (EMU) by January 1, 1999, with respect not only to objectives (sustained economic growth), but also mechanisms. My government is firmly committed to the adoption by Spain of the euro from the very outset.

The process of union is positive in that it constitutes the final step in the formation of the single market and provides us with a stable economic area to which we can contribute with cohesive policies implemented over the medium term. Our aim is not simply to adopt measures for achieving the objectives stated at Maastricht, but to apply economic policies to bring about lasting structural improvements and thus guarantee the stability necessary for the sort of sustained economic growth that will ensure job creation.

STATEMENT BY THE GOVERNOR OF THE FUND AND THE  
BANK FOR SRI LANKA

*G.L. Peiris*

Let me, at the outset, join my fellow Governors in congratulating you on your assumption of chairmanship of these Joint Fund/Bank Annual Meetings.

Let me also congratulate Mr. Michel Camdessus on his reappointment for an unprecedented third term to steer the affairs of the Fund. It is an unequivocal expression of the deep confidence the membership has reposed in his able stewardship. We wish him all success in his most challenging tasks ahead.

I also wish to join my colleagues in welcoming our newest member, Bosnia and Herzegovina, to our midst.

We are encouraged by the satisfactory growth of the world economy in 1996 and its positive growth projection for 1997. Over the medium term, expansion in the global economy is expected to remain satisfactory. In general, all regions in the world show positive growth trends in 1996 and good prospects for 1997. We are particularly encouraged by the turnaround that transition economies as a group were able to achieve this year for the first

time since they embarked upon their massive reforms to transform their economies; indeed they are expected to record a growth rate of around 4 per cent next year. We congratulate them on their steadfast commitment to market reform despite many daunting challenges.

The rather positive outlook the world economy is showing is in fact masking many disparities that exist today, both among regions and within regions. These are only too well known to be repeated here.

Most of us today are involved in macroeconomic stabilization and structural adjustment programs to strengthen our economies and put them on a more sustainable growth path. The problems we have to grapple with depend upon the unique nature of our individual countries and the specific challenges we are facing. Though it is difficult to generalize, one of the most difficult problems confronting many of us today appears to be the rather intractable fiscal deficits. They appear to lie at the root of most of our problems. As we all know, large budget deficits lead to crowding out private investment, increasing inflationary pressures, and widening external current account deficits. They are thus major impediments to recovery of growth and job creation. We are trying to fight our way out of this quagmire, but it is a difficult battle, as experience has shown us. Our tax systems have to be further improved and streamlined. Our expenditure has to be prioritized, and more resources have to be found for the development of human and physical capital. Moreover, the limited resources at our disposal have to be used more efficiently. We have to make the public sector smaller and allow the private sector to perform what is within its competence. Most of these measures are painful and unpopular, and demand great courage and commitment on the part of policymakers. Yet these short-term pains and hardships have to be lived through if gains in the medium and long term are to be achieved. Countries that take this difficult path, therefore, deserve help and encouragement from the international community to sustain their efforts and soften the severe hardships and dislocation that will inevitably accompany them.

Talking about our own country, Sri Lanka, we have made substantial progress in our fiscal reform and structural adjustment program. To strengthen our tax administration further, we will very soon be introducing a goods and services tax (GST). We are speeding up the process of reform and privatization of the public sector enterprises. Two of the largest public sector enterprises, Sri Lanka Telecom and Air Lanka, the national carrier, will soon be partially divested. Private sector initiative is encouraged to make investments in infrastructure projects under "Build-Operate-Own" and "Build-Operate-Transfer" arrangements. Treasury cash management is being strengthened with a view to maintaining tighter control over the fiscal budget.

Let me now make a few comments on the Bretton Woods institutions. We commend the initiatives taken by the Fund toward the establishment of an interim Enhanced Structural Adjustment Facility (ESAF),

before the commencement of the self-sustained ESAF in the year 2005. We also commend the progress made by the Fund and the World Bank in developing a relief package for the heavily indebted poor countries (HIPC). As a token of our strong support for these two initiatives, we wish to contribute as a grant the funds credited to Sri Lanka in the second Special Contingent Account (SCA-2). We hope that our colleagues here will also be able to make similar contributions, in addition to whatever other funds they will be able to advance to the ESAF Trust and the subsidy account. If, however, sufficient funds cannot be raised for these two important initiatives, we have no objection, as a last resort, to the sale of a modest amount of gold and investing the profits toward raising the shortfall. We would, however, wish that the HIPC initiative does not lead to a reduction of the access traditional nondebtor borrowers have so far enjoyed to the concessionary funds.

We welcome the successful conclusion of the eleventh replenishment of the International Development Association negotiations recently, even though we are worried about the level of funds committed. It is our hope that all donors will fulfill their commitments in time for it to take effect on a permanent basis without delay. We regret, however, that the task of funding IDA is becoming increasingly difficult. Similarly, a declining trend is observed in the flow of official development assistance resources to the developing world. In view of the increasing need for such funds and the crucial role they have been playing in strengthening the economies of many poor countries, we urge the international community to reverse these native trends soon.

We are encouraged by the progress being made by all concerned parties toward reaching an agreement on the New Arrangements to Borrow (NAB). We particularly welcome the prospective new participants to this proposed arrangement. We hope that the ongoing discussions will soon lead to a satisfactory conclusion of this matter.

We hope the Executive Board of the Fund will be able to reach a satisfactory conclusion soon on the Eleventh General Review of Quotas. Being a quota-based institution, a greater part of the Fund's liquidity should come from its quotas. The importance of strengthening the liquidity of the Fund, so as to make it effectively fulfill its mandate in a world of rapid globalization and fast-expanding needs of member countries, needs no emphasis. Doubling of present quotas would, in our view, satisfy this objective to a great extent. It is our fervent hope, however, that in any quota-increase exercise, greater weight should be given to an equiproportional increase.

We commend the Executive Board and the management of the Fund for the substantial progress already achieved in seeking a solution to the SDR issue. We would encourage the Fund to complete the remaining work and put up its final recommendations soon. We do, however, feel that the quantum mentioned in the Managing Director's proposals appears rather insufficient. In our view, the size of the proposed new issue should be dou-

ble the existing amount if it is to achieve the twin objective of meeting equity and satisfying, at the same time, the needs of many developing member countries for owned and low-cost reserves.

As regards the amendment route proposed by the Managing Director for resolving this issue, we wish to reiterate our position that if unforeseen difficulties or protracted delays were to occur in this path, we should fall back as early as possible on the Fund Articles to proceed with a general allocation.

We welcome the further progress made by the Fund in promoting the use of the Special Data Dissemination Standard (SDDS). In particular, we commend the Fund for launching the electronic bulletin board for the SDDS a few days ago. We hope we will be able to see more progress soon in this very important area, such as the establishment of hyperlinks to connect the electronic bulletin board to individual country data sites on the Internet. We also hope that many of us will be able to connect with the electronic bulletin board in the near future. We encourage the Fund to expedite the work on the General Data Dissemination Standard (GDDS) too, so that it could be launched without delay.

We are pleased at the progress made by the Fund in strengthening its surveillance of member countries. Taken together, the establishment of the special data standards and the enhanced surveillance efforts will no doubt make a substantial contribution toward improving the transparency, integrity, and health of the international financial system.

The remarks made by the Chairman, the Managing Director of the Fund, and the World Bank President at the opening ceremony yesterday clearly emphasized the challenges we will be facing in the coming years and how the Bretton Woods institutions are preparing to face them. We wholeheartedly endorse the common message that came out of yesterday morning, that by working and sharing together more equitably the fruits of growth we can face these challenges successfully. Indeed the entire gamut of global prosperity in the next century seems to rest heavily on this simple and time-honored philosophy.

#### STATEMENT BY THE GOVERNOR OF THE BANK FOR SWEDEN

*Erik Asbrink*

#### *Introduction*

I have the honor of addressing this meeting on behalf of the Baltic countries: Estonia, Latvia, and Lithuania; and the Nordic countries: Denmark, Finland, Iceland, Norway, and Sweden. I shall focus on matters per-



taining to the International Monetary Fund. Before I start, I would like to cordially welcome Bosnia and Herzegovina as a new member in the IMF since our last Annual Meeting.

### *Surveillance*

Since the early 1980s, we have witnessed a dramatic increase in the interdependence of our economies. In today's world, characterized by financial innovation and integrated capital markets, it is more important than ever that IMF surveillance be continuously adapted and enhanced in order to keep it as efficient as possible. Performing effective surveillance implies promoting sound economic and financial policies, and having the capacity to identify and deal with deviations from such policies in a timely manner. Moreover, as we are all affected by developments outside our borders, it is also important that countries shape their policies with this in mind, in order to ensure low inflation, sustainable growth, and employment.

I sincerely welcome the strengthening of the Fund's surveillance, in particular the development of the Special Data Dissemination Standard (SDDS) and the decisions to carry out a more continuous process of surveillance. This will make the IMF better equipped for facing future challenges.

The quality of the Fund's surveillance depends critically on the availability of timely and reliable data. The member countries also stand to gain from providing economic and financial data to markets, since it enhances the transparency of economic and policymaking performance. I am therefore pleased to see that the SDDS has been set up so swiftly. It is encouraging that as many as 36 countries have already subscribed to the Standard. Now, it is important to continue work on a set of general standards, which all Fund members should strive to meet. Technical assistance will be needed for those members that cannot meet the required minimum standards on their own.

This leads me to improved transparency in a broader sense. Credibility and effectiveness in surveillance is dependent, among other things, on frankness in the dialogue between the member countries and the Fund. Moreover, effectiveness of surveillance increases all the more if the Fund's advice is candid and straightforward. We welcome the efforts made in this regard during the last year.

At the same time, I believe that additional steps toward increased openness would strengthen surveillance and also contribute to a more informed public debate. Making Fund advice on surveillance issues available to the public and to the markets in appropriate ways could be part of such a strategy. The issue of openness is delicate, but I do believe that it is possible to find solutions that permit increased openness while preserving the confidential nature of the dialogue between the Fund and its members. It is therefore my view that the matter deserves the continued attention of the IMF's Executive Board.

*IMF's Financial Resources*

Let me now proceed to the second “pillar” of the Fund’s activities—provision of financial assistance. I would like to underscore the importance of an adequate expansion of the IMF’s resources to match the potential needs of members in today’s global economy. The eleventh review of the Fund’s quotas was initiated in early 1995. In view of the projected sharp fall in the Fund’s liquidity through 1997 and early 1998, most members today favor a substantial increase in quotas—so do the members of my constituency. Therefore, I find it unsatisfactory that very little progress has been made so far in this review. It is imperative that work on this issue be accelerated with the aim of reaching an early conclusion on a substantial quota increase.

Quotas should continue to be the Fund’s prime source of financing. However, the speed with which financial crises develop in interdependent economies, as well as their size, underlines the need for a substantial strengthening of the Fund’s financial resources. The agreement in principle that has been reached on the New Arrangements to Borrow (NAB) will give the Fund the financial ability to deal with crises of this magnitude. We welcome the fact that a broader group of countries has agreed to support the Fund by participating in this new arrangement. Having said that, it is essential to underline that expanded borrowing arrangements can never be a substitute for a quota increase.

*ESAF/HIPC*

Another aspect of the Fund’s resource needs concerns the future financing of the Enhanced Structural Adjustment Facility (ESAF) operations. I would like to emphasize my strong support for the ESAF as the centerpiece of the Fund’s strategy to assist its poorest members. I welcome the recent understandings regarding the financing of the interim ESAF and the Fund’s participation in the initiative for the heavily indebted poor countries. This is an important step in the work toward implementing the initiative. The recent progress made in the Paris Club also paves the way for a balanced overall agreement based on a combination of bilateral and multilateral contributions. I hope that the creditors in the Paris Club will apply considerable flexibility and tailor the debt relief to the specific circumstances of individual countries.

*Changing the Articles of Agreement*

In spite of the rapid and profound changes in the Fund’s external environment, the Articles of Agreement have stayed remarkably relevant. They have provided the Fund with a solid mandate, but also with sufficient flexibility to allow the Fund to adapt to new challenges. But, over the last years, a number of proposals for reform have been put forward that would require a

change of the Articles. Most recently, the discussions on the SDR issue show that a solution to the so-called “equity problem” will require such a change.

A review of the Fund’s Articles has to be carefully prepared. Otherwise, there is a risk that the discussion will be very time consuming and complicated, with too many competing proposals. We also need to be certain that any changes that we decide upon today will stand the test of time many years from now. In order to have a reasonable chance of success, a review of the Articles has to be limited to a relatively small number of well-defined issues. In fact, an agreement on which issues to include should be a precondition for going into discussions on substance. In particular, I believe there are three such issues that merit consideration.

- The first area to be considered is the SDR issue. Here, I welcome the Executive Board’s recent agreement on the broad principles of a solution to give all Fund members a stake in the SDR Department. This solution, based on a one-time allocation, will eventually require an amendment of the Articles.
- A second issue is capital account convertibility. The present Articles were agreed upon in a different environment. Since then, the importance of capital account issues has increased, and recent experience points to the minimal effectiveness of exchange and capital controls. There are good arguments for reviewing the Fund’s jurisdiction in this area.
- A third candidate is the system for financing the costs of the Fund. The widespread interest in moving to a more transparent and equitable system argues for including this matter in a review of the Articles.

To sum up, even if a review of the Articles may run the risk of opening up for discussions too many issues, there are still substantial benefits to gain in the long term. It is clear to me that it is not a question of if, but rather a question of when, to undertake this review. The time is now ripe for starting serious work.

STATEMENT BY THE ALTERNATE GOVERNOR OF THE FUND FOR  
SWITZERLAND

*Kaspar Villiger*

It is an honor and a pleasure for me to attend the Annual Meetings of the Bretton Woods institutions for the first time, and it is a privilege to ad-

dress this distinguished audience. Let me especially welcome Bosnia and Herzegovina as a new member of our institutions.

Today, the international community faces considerable challenges. We must strive toward price stability at a time when the consequences of monetary policies are increasingly difficult to predict. We must balance our budgets, while not failing to meet our responsibilities toward the most vulnerable members of society. We must achieve economic growth, and this inevitably requires painful structural adjustments. By addressing these issues with foresight and with good common sense, we can turn these challenges into an opportunity: we can lay the foundations now for high-quality sustained growth.

In industrialized countries, economic growth in 1996 has remained uneven. In Europe, growth is lower than we had hoped for, and we are making little headway in fighting unemployment. Fortunately, receding inflation has allowed restrictive fiscal policies to be tempered by more expansionary monetary policies.

Almost all countries in transition have already crossed—or are about to cross—the pass leading to a market economy and economic growth. Almost all have managed to recover control over their monetary and budgetary policies. These countries deserve high praise for their determined policy stances. To consolidate the progress achieved so far, it is now crucial to move ahead rapidly with difficult reforms in the structural area. This will ensure that these countries fully reap the benefits of their efforts to date.

The developing world, in its diversity, faces different problems. There are countries in Asia and in Latin America that are now struggling with the consequences of their impressive growth performance over the last years. In Africa, several countries achieved positive growth rates; others are destabilized by political turbulence, causing their development to suffer serious setbacks. Furthermore, growth prospects for many African countries are hampered by the effects of unsustainable levels of external debt.

In this context, I warmly welcome the Bretton Woods institutions' determination to help meet the challenge the most heavily indebted poor countries of the developing world are facing. The initiative to assist these countries is an excellent example of constructive cooperation between the World Bank and the Fund. I fully endorse the initiative. It is crucial that debt sustainability be targeted on a case-by-case basis for countries with a convincing track record of sound economic policy and that the preferred creditor status of the multilateral financial institutions be preserved. In this context, it is essential that bilateral creditors contribute according to their share of the outstanding debt.

Although some of the modalities regarding the participation of the various creditors in the initiative remain unclear, important steps have been taken. The World Bank has set aside \$500 million to fund its initial contribution. The Fund will contribute to the initiative through the Enhanced

Structural Adjustment Facility. We welcome the agreement reached on the continuation of this concessional financing mechanism, which is the centerpiece of the Fund's strategy to help low-income countries.

As regards the general financial resources of the Fund, we feel that the work on the Eleventh General Review of Quotas should be completed at the time of the next Annual Meeting. The New Borrowing Arrangements, which are presently being negotiated, should also become operational at that time.

Notwithstanding this substantial future increase in financial resources, we remain convinced that prevention is the best protection against possible crises. We therefore welcome the strengthening of Fund surveillance. We have been favorably impressed by the decisive progress made in establishing data dissemination standards.

Lastly, we encourage the Fund to pursue its efforts to improve its transparency and its accountability. In this respect, we particularly welcome the decision to ask outside experts to evaluate activities of the Fund.

Turning to the World Bank Group, we must acknowledge the crucial support it can provide to communities and governments willing to take advantage of the opportunities offered by a growing and multipolar world economy. Beyond the general attention devoted to macroeconomic and sectoral policies, we believe that the Bank's major priority should continue to be poverty reduction.

While during recent years hundreds of millions of people have been able to raise their living standards above subsistence level, many more continue to endure inhuman living conditions. The absolute number of people surviving on less than one dollar a day has increased. This is not acceptable. It is our common responsibility to build upon the results already achieved and to give hope to those thus far excluded from the expanding prosperity.

Sub-Saharan Africa occupies, in this context, a special position. The continent is not getting sufficient attention from bilateral partners. This increases the role and the responsibility of multilateral organizations. Therefore, we feel that the special program for Africa should be a continuing priority for the International Development Association (IDA). Indeed, a renewed commitment is justified by the sound economic policies consistently implemented by several governments of the region.

The ongoing program of operational renewal will certainly improve the World Bank's effectiveness. This will increase the credibility of the institution in financing projects and giving advice to governments. We are confident that the development of new tools for controlling, monitoring, and evaluating operations will enhance efficiency and ultimately strengthen borrower ownership.

The private and public sectors can both contribute to achieving development and growth, each in its own way. Significant volumes of private capital flow to countries that have established favorable economic and in-

stitutional environments. Even in these cases, the advice and financial support of the Bretton Woods institutions continue to be necessary. In a large number of poor countries, policy reforms and the creation of basic infrastructures, which would be necessary to attract foreign private capital, are still lacking. In these situations, the demand for resources and services of the International Finance Corporation (IFC) and the Multilateral Investment Guarantee Agency (MIGA) is increasing. Unfortunately, the expansion of both IFC's and MIGA's cooperation with the private sector is beginning to be constrained by their limited capital bases. We believe that the time has come to reconsider their financial position.

Looking back over a year of intense work in the Fund and in the World Bank, I wish to express the gratitude of the Swiss authorities to the management and the staff of both institutions for their professionalism and their dedication.

STATEMENT BY THE ALTERNATE GOVERNOR OF THE BANK FOR  
THAILAND

*M.R. Chatu-Mongol Sonakul*

I am honored to have the opportunity to address the Joint Annual Meetings of the Governors of the Bank and the Fund. At the outset, allow me to congratulate the heads of both institutions for another successful year. At the Bank, Mr. Jim Wolfensohn brought with him a strong leadership, clear vision, and compassion for development. I wish him and his management team continued success in their work, particularly in poverty reduction. My congratulations also go to Mr. Michel Camdessus on his reappointment as Managing Director for an unprecedented third term.

Let me turn briefly to the global economy. The outlook has been mixed with continued low inflation and interest rates providing good opportunity for growth. However, the slowdown in world trade in the past year poses considerable challenges to many developing countries as their export earnings and growth rates declined. We hope that this is a cyclical phenomenon and that trade expansion will resume. As it is in the interest of all countries to ensure a sound global economic environment conducive to growth, we urge the industrial countries to further improve market access for goods of export interest to the developing countries.

The economic development of Thailand in 1996 has been affected by the trade slowdown. The growth rate is expected to be around 7 percent, compared with 8.6 percent in 1995. The soft landing provides a welcome

relief from incipient domestic and external pressures. The inflation rate continues to fall after a peak of over 7 percent earlier. The current account deficit has been addressed through several measures and is showing encouraging signs of abatement. Debt profile—a cause of recent concern—is closely monitored with a view to reducing the short-term debt to a more appropriate level. The government is committed to the policy of a stable exchange rate, which has served as a main pillar of Thailand's economic policy. A fiscal surplus has been recorded for nine years in succession. International reserves are at a comfortable level of around \$39 billion or six and a half months of imports.

In short, the government is committed to the policy of promoting growth with stability. For the long-term policy initiatives, efforts have been increased to strengthen our human resource base, to redistribute income and wealth, and to reform the financial sector and other important economic sectors.

Let me now turn to the issues related to the policies and operations of the Bank. For decades, the Bank's overarching objective has been poverty reduction. We commend the strategy that emphasizes broad-based growth and investment in education, health, and social services as well as through target intervention.

I reaffirm Thailand's support for the heavily indebted poor countries (HIPC) debt initiative. However, I wish to emphasize that appropriate burden sharing must be a condition for the Bank's full involvement and urge donor countries who support the initiative to make their fair contribution to the trust fund. I welcome the Bank's policy initiatives responding to client needs, including the expansion of currency choice of loan products. However, we caution the Bank on its increasing emphasis on the issue of governance. The policies of the Bank must be realistic and consistent with the Articles of Agreement.

While we are in support of several initiatives proposed by the management, we must also recognize that the institution is cooperative in nature and, as such, should be shaped by shared vision and benefits. In this respect, I wish to urge the management to seriously consider the increase in interest waivers for merit IBRD borrowers. I also see the merit for the Bank to provide softer windows for the social sector loans and poverty alleviation in order to encourage IBRD borrowers to borrow for such purposes.

Lastly, with respect to investment guarantee operations, I feel that the Bank should avoid setting up new institutions that would undertake similar tasks when the expertise is already available in the Multilateral Investment Guarantee Agency (MIGA).

Let me now speak briefly on issues related to the Fund. The initiative in launching the Special Data Dissemination Standard (SDDS) is commendable. The SDDS, through the bulletin board will provide the market with accurate and timely information. The rapid transmission mechanism

will also help to avert any misunderstanding or panic reaction from the market. Thailand has subscribed to the SDDS and is committed to the development of transparent and timely economic and financial information.

We welcome the progress on the proposal for the New Arrangements to Borrow and see this as a symbol of close cooperative spirit to safeguard the international monetary system against global disturbances. We strongly urge the Fund to expedite the Eleventh General Review of Quotas to ensure adequate financial assistance to all members. Due regard, however, must be given to issues concerning size and distribution. Adequate considerations should be given for selective increases to bring members' actual quotas more in line with the size of their economies and, in appropriate cases, allow for ad hoc increases for the "out of line" cases.

The Enhanced Structural Adjustment Facility will continue to be instrumental in assisting the poor and heavily indebted countries. We urge that a meaningful solution be reached for its continued financing so that those countries that make good progress in economic reforms can continue to benefit from the program.

On the issue of SDR allocations, we believe that the challenges of globalization and greater openness, together with the need to address equity considerations, call for significant strengthening of member countries' own reserves. We therefore support the Managing Director's proposal and hope that some members will consider their positions in a spirit of compromise, and that consensus will be reached soon. The Bank and the Fund will be facing a large agenda and difficult challenges in the years ahead. We wish both institutions every success in their pursuit of stable global economy and development goals.

#### STATEMENT BY THE GOVERNOR OF THE BANK FOR TONGA

*K.T. Fakafanua*

I am honored to represent the government of the Kingdom of Tonga at the Fifty-First Joint Annual Meetings of the International Monetary Fund and the World Bank Group. I congratulate Eduardo Aninat, Governor of the International Monetary Fund and the World Bank Group for Chile, on his appointment to the Chair. I also join other Governors in welcoming the delegation from Bosnia and Herzegovina, attending these Annual Meetings in the capacity as a member for the first time, and to the delegation from Brunei Darussalam, who joined the Fund and the Bank during the Annual Meetings last year. On behalf of my delegation, I would like to thank the Managing Di-



rector of the Fund, the President of the Bank, and the management and staff of both institutions for the excellent arrangements made for the meetings.

The political and economic changes taking place around the world today are affecting the international and regional environment. The Bank, in its May 1996 report entitled *Global Economic Prospects and the Developing Countries*, suggests a likely acceleration in the pace of international integration over the next few years—even compared with the rapid pace of the past ten years. Real interest rates will be moderate, and the growth of world trade is likely to exceed 6 percent a year in volume terms, faster than at any time since the 1960s.

Trade remains essential to the economic well-being of many developing countries whose economic performances are tied inextricably to developments in the industrial world. Prolonged recessions, distortions in energy prices, and other major global disequilibria have the potential to exert a profound and negative effect on growth prospects in developing countries, as do changing trade relations between nations. The rise of many new and potentially exclusionary trading blocs brings with it the possibility of a disruptive impact on world trade, particularly affecting the trading patterns of developing countries.

Given the dramatic reshaping of the world's economic and political scene, a number of distinct issues now confront us, such as the increased competition for foreign aid and loan assistance—both private and public, bilateral and multilateral. This is because, while the demand for financial resources by countries around the globe has by no means increased, the pool of available funding has not significantly increased either.

Turning now to my country, the Kingdom of Tonga is endeavoring to restructure her economic and social environment in a manner consistent with the changing global environment. During 1996, the government has given priority to enhancing private sector development through a review of the public sector. Concurrently, efforts are being directed toward, inter alia, diversifying the country's export base and markets, and improving infrastructure and tourism facilities. On the external front, the government is reviewing its trade policy in line with arrangements under the World Trade Organization.

The year 1996, however, has not been without problems for the Kingdom. The drought of 1995 brought about an economic growth rate of around 1.7 percent, compared with the more favorable rates attained in previous years. The relatively low export receipts of 1995, coupled with the rapid expansion in domestic credit to the private sector, have had an adverse effect on the country's external foreign reserves position. This has called for major efforts by the government to ensure fiscal and monetary discipline during the year.

Allow me now to touch briefly on Bank issues. We join other developing member countries in urging the donor community to give its full support to an increase in the International Development Association (IDA)

resources, and in particular, to ensure that favorable consideration is given to small island developing member countries, given the unique problems they face. In this respect, we urge the World Bank and other lending institutions to give special consideration to the economic vulnerabilities of the small island developing countries so that access to loans, grants, and other forms of assistance are based on appropriate and realistic measures.

On the issue of private sector development, we acknowledge the proactive developmental and catalytic role played by the International Finance Corporation (IFC) in the Pacific region, and the financial assistance provided by the governments of Australia and New Zealand for that purpose.

Turning now to Fund matters, we join other developing member countries in supporting the Managing Director's proposed compromise package on the issue of the SDR allocation. On the financing of the self-sustaining Enhanced Structural Adjustment Facility (ESAF) and the heavily indebted poor countries (HIPC) initiative, we, like many other developing member countries, urge a quick and effective resolution of these issues.

With respect to the Fund's technical assistance program, we are concerned with the tightening of the Fund's operating budget and consequent cuts in allocations for technical assistance, particularly with regard to the allocation for the Pacific region. In this regard, we would like to acknowledge the valuable assistance provided by the Pacific Island Financial Technical Assistance Facility based in Suva, Fiji, and pledge our support for its continuity.

In closing, I wish to reaffirm the commitment of the government of the Kingdom of Tonga to the pursuit of sound economic and financial policies with a view to creating the conditions for sustainable growth and improving the welfare of our people. As the Fund and the Bank play a lead role in providing structural adjustment policy advice to their member countries, we urge them to bear in mind that the net effects of the changes in the global economic environment on individual small island developing countries such as ours will vary according to their differing resource endowments, socio-cultural conditions, level of development, and economic strategies.

#### STATEMENT BY THE GOVERNOR OF THE FUND FOR TURKEY

*Ufuk Soylemez*

The Fund's analysis of the world economic situation is on the whole quite positive. Economic growth is expected to increase to 3.8 percent in 1996 from 3.5 percent in 1995, with inflation remaining under control.

We are also pleased to see that the global expansion will continue, though trade growth will slow somewhat as the effects of trade liberalization, financial globalization, and cyclic recovery level off.

National economic policies have also remained appropriate, with most countries actively pursuing medium-term stability targets broadly in line with the common strategy outlined in Madrid. While stabilization efforts have been relatively successful, the same is not true in the area of deficit reduction. Continued complacency in the face of this problem will jeopardize the otherwise favorable world outlook. The urgency of correcting domestic imbalances and bottlenecks is increased by the global integration of the financial markets.

In today's highly integrated world, the best way to promote trade and sustainable growth is to convince everyone that sound policies make a difference. Very timely for this reason is the launching of the Fund's Special Data Dissemination Standard (SDDS), which will encourage members to publicize their economic and financial data. Having to seek access to the international financial markets, my country of Turkey well understands the importance of high-quality economic and financial data and subscribed to the SDDS in early August.

Given existing uncertainties about future demand for Fund resources, it is important for the Fund to remain strong at all times. An early decision on the Eleventh General Review of Quotas is needed to improve the Fund's liquidity position more durably.

The ESAF has proved itself a valuable vehicle for assisting the poorest members to undertake structural adjustments. We therefore support its continuation. It is particularly regrettable that the debt situation of the poorest countries has not improved. The international community needs to increase the supply of concessional resources and work to create a more favorable economic climate so that these countries can reach higher rates of sustainable growth.

Let me now turn to recent developments in the Turkish economy and outline Turkey's short- and medium-term outlook.

GNP growth of 7.5 percent is expected for 1996. Prices are expected to increase by 75 percent, adjusted with the GNP deflator. Exports should increase by 11 percent to US\$24.4 billion. Imports should reach \$44.5 billion. Taking account of invisibles, the projected current account deficit is \$6.8 billion, or 3.75 percent of GNP. Foreign direct investment will fall by 16 percent to \$650 million. Medium- and long-term loans are expected to produce inflows totaling \$4.5 billion. An additional \$4.5 billion is expected from short-term capital flows. It is expected that all this will translate into a \$4.4 billion increase in international reserves.

The consolidated budget deficit for 1996 is expected to amount to TL 1301 trillion, equivalent to about 8.8 percent of GNP. The budget as-

sumes that both expenditures and revenues will rise, by 5.1 percent and 0.4 percent respectively.

More than half of Turkey's total targeted foreign borrowing for the year has already been accomplished. Borrowing from the international capital markets has reached \$1.9 billion, two-thirds of the amount targeted for the year. This leaves a comfortable amount of room for maneuver during the balance of the year. The management of short-term debt has become quite efficient, and an increase in market confidence was visible following the announcement of the recent package.

Although Turkey's external debt rose in 1995, all relative measures of indebtedness improved. The ratio of debt to GDP, which had been 41.8 percent in 1994, fell to 34.5 percent in 1995. The debt exports ratio and the debt service/exports ratio also improved. The debt exports ratio, at 176.6 percent, was the lowest in more than a decade, and the debt service/exports ratio fell despite heavy principal repayments in 1995.

Despite the relatively favorable external position, however, the accumulating problems in the fiscal sector are a source of concern. However, with emergence of a consensus on the nature and causes of these problems, they do not seem insurmountable, and it is expected that the process of structural reform will now gain momentum, especially in the fiscal area.

The European Union is already an important source of foreign investment capital. Once Turkey joins the Customs Union, it is expected that foreign capital investment will rise in response to increased opportunities for trade and production and to the harmonization of production standards and competition regulations. This will help increase employment, provide a source of technological modernization, and expose Turkey to the benefits of increased competition.

In the structural area, the law that permits the privatization of the Telecommunications Company has been passed by Parliament, and the law on the Special Consumption Tax was submitted to Parliament in 1996.

To offset the losses due to elimination of some charges and import duties, tax rates were increased for automobile purchases, imported tobacco and alcohol, and petroleum products. A Special Consumption Tax aimed at replacing about 10 excise taxes and increasing the efficiency of excise tax collection is scheduled for parliamentary discussion.

Other tax measures under consideration are a 1 percent increase in the standard VAT, now awaiting approval by the cabinet; a law for taxing capital gains on urban real estate; and changes in the commercial and banking codes to tax unregistered activities.

The Treasury's ability to obtain Central Bank financing of budget deficits is gradually being reduced and by 1998 will reach its new level of 3 percent of the annual increase in its budgetary appropriation.

In this environment of contrary economic trends, Turkey is gradually becoming a regional economic power in a very active "eco-strategic" area.

We expect to share the benefits and the advantages of this privileged position with our fellow members of the European Union in a relatively near future.

As it approaches the twenty-first century, the world economy is undergoing an interesting transformation. The former centrally planned economies are seeking liberal market reforms. The western industrial economies are facing the rigors of regionalization and globalization. And the rather surprising takeoff of many southeast Asian economies has demonstrated new evidences of vigor and dynamism.

#### STATEMENT BY THE GOVERNOR OF THE BANK FOR UKRAINE

*Victor M. Pynzenyk*

Allow me, on behalf of the leadership of Ukraine, to wish success to the new member of the IMF and the World Bank, Bosnia and Herzegovina, which has also joined our constituency.

This year, Ukraine, in close cooperation with the IMF and the World Bank, has passed several remarkable milestones in economic reforms.

More than half of our GDP comes from the private sector for the first time. By mid-1996, we had completed our small-scale privatization, after 90 percent of all small state enterprises had been sold. Since March, shares in about 400 large- and medium-sized enterprises have been auctioned off each month. Now our aim is to move on to land reform.

More important, 1996 stands out as the year when Ukraine finally managed to get inflation under control. In 1993, Ukraine faced hyperinflation of 10,155 percent. Therefore, Ukrainians have learned to hate inflation, and the control of inflation is the main priority for the Ukrainian President, the government, and the National Bank. Monthly inflation was brought down to 0.7 percent in May, and to a mere 0.1 percent in June and July. Inflation rose somewhat in August owing to a radical reduction of subsidies of communal services. Underlying inflation remained under 1 percent. Last month we successfully introduced our national currency, the hryvnia.

Financial stabilization has had other positive effects. The exchange rate of the Ukrainian currency has actually appreciated by 10 percent in nominal terms since the beginning of the year. The average dollar wage has tripled in the past one and a half years, from a very low level. The people of Ukraine have benefited from stabilization in many other ways as well. These accomplishments are quite visible, thus facilitating the government's efforts to move on with further reforms. Implementation of reforms was also facilitated by two other factors—adoption of the new Constitution of Ukraine this June, and a two-year horizon before the next election.

The leadership of Ukraine is fully aware that financial stabilization is the necessary precondition of successfully addressing this challenge, but only deep structural reform can lead to sustained economic growth. We are now, therefore, working hard to create a favorable environment for both domestic and foreign investors, while maintaining financial stability.

To this end, substantial institutional and structural reforms are envisaged. Tax reform is an urgent requirement. The highest tax rates on incomes and payrolls should be reduced, while the tax base should be broadened and tax collection improved. At the same time, budget expenditures must be reduced to further diminish the budget deficit. While the Ukrainian economy is already largely liberalized, the deregulation will go further and become more effective.

Ukraine is actively working on the development of a medium-term program, which can be supported by the Extended Fund Facility (EFF). We expect to start implementing this program by this year's end. The Ukrainian leadership wants structural measures to be rigorous enough so that Ukraine can return to growth in 1997.

Together with the World Bank, we have concluded major programs on privatization, and an energy and agricultural reform. We are developing programs on public sector reform and financial sector restructuring. The coal sector restructuring project, which we expect to become operational soon, envisions the rapid closure of 50 coal mines. But in addition, we face the challenge of closing 100 such loss-making mines.

These measures are important, as well as painful, and we need substantial support from the international community of donors and creditors to undertake them, especially while Ukraine's international reserves remain low and the balance of payments is negative. I want to use this occasion to appeal to bilateral donors, especially the European Union, the United States, and Japan, to assist us with bilateral balance of payments support for the next year at the Consultative Group Meeting to be held on October 24–25 in Paris.

As our economy has just started to recover, trade becomes the most important issue. This year, Ukrainian exports are rising sharply, as the Ukrainian foreign trade regime has been liberalized. However, we are facing substantial problems with protectionism from other countries. We need international support to deal with these problems, and although it has been two years since Ukraine applied for membership in the World Trade Organization (WTO), little progress has been achieved. We would appreciate it if the Bretton Woods institutions would support us in resolving the outstanding trade problems and would assist us and our neighbors in joining WTO as soon as feasible.

I would like to conclude my statement by underlining my government's firm commitment to successful economic reforms in Ukraine and further close cooperation with the IMF and the World Bank.

We welcome the ideas from the World Bank to offer more client-oriented instruments, such as single-currency loans, which will lower our cost of World Bank loans. We hope that the IMF would also be in a position to assist more effectively new emerging-market economies in undertaking radical restructuring, and, thus, to expect the Eleventh General Review of Quotas to be completed soon. My government also counts on an additional SDR allocation to achieve greater equity among the IMF member countries.

STATEMENT BY THE GOVERNOR OF THE FUND AND THE BANK FOR  
THE UNITED KINGDOM

*Kenneth Clarke*

*Introduction*

I would first like to thank the IMF and World Bank staff for the excellent organization of these meetings. I look forward to next year's meetings in Hong Kong. I would also like to congratulate Michel Camdessus on his reappointment to an unprecedented third term.

*Multilateral Debt Initiative*

Two years ago, I brought to these meetings a proposal to reduce the burden of multilateral debt on some of the very poorest countries that are following successful economic development programs. Since then, we have addressed the problem that unsustainable debt causes in many of the poorest countries and agreed that, for some countries, existing mechanisms will not be enough to solve the problem.

Two years on, we have finally come up with a proposal that can release these countries from unmanageable debt burdens. And we have secured an undertaking by the three major creditors—the IMF, the World Bank, and the Paris Club—to finance this proposal. We all owe our thanks to Jim Wolfensohn and Michel Camdessus for their energy and dedication in bringing us to this point.

By the standards of global international diplomacy, that is a lot to accomplish in just two years. But it is not yet enough. The IMF and the World Bank must now focus on implementation. Each creditor must take the necessary steps to ensure that they coordinate their actions. And those countries that have already demonstrated a substantial commitment to economic reform must continue their efforts in order to qualify for enhanced relief.

I hope that the implementation of debt-relief measures for the most impoverished and best-performing countries will now be pursued with some urgency. Each country must be considered sensibly and flexibly on a case-by-case basis without the over-rigid application of bureaucratic rules. Countries that have already demonstrated a good track record should not be obliged to wait for long for further help. I look forward to immediate action and to the first tranche of eligible countries' being well on their way to an exit from their burdens of unsustainable debt before our spring meetings.

### *Trade Policy*

The opening of markets and the expansion of international trade have brought substantial increases in living standards in the postwar era. The General Agreement on Tariffs and Trade (GATT), and now the World Trade Organization (WTO), are the bulwark against protectionism the world over. The first WTO ministerial meeting in Singapore represents an opportunity to continue the momentum toward multilateral liberalization and to move toward realizing the vision of global free trade. This is in all our interests, both developed and developing countries alike.

I hope the WTO Ministers will endorse a broad liberalizing agenda to implement the Uruguay Round. I welcome the imaginative proposal by Mr. Ruggiero for abolishing the tariffs on exports from the least-developed countries. I also want to see the start of preparations for further negotiations on agriculture and the implementation on time of the WTO Agreement to dismantle the protection of the textile sector. We must also resist all attempts to link standards on labor and social affairs to trade policy.

Action on debt and action on trade are both essential components of our efforts to involve some of the poorest countries more effectively in the modern global economy. They do not replace the need for official development assistance for the poorest of the poor countries of the world. But, in the long run, they will be the most effective way of raising the living standards of those in deepest poverty by paving the way to economic development of the kind that has so improved the prospects of people living in the emerging economies of southeast Asia and Latin America.

### *Private Capital Flows and IMF Articles of Agreement*

Over the last decade, private capital flows have increased enormously. These flows have already brought great benefits, particularly to a dozen or so countries now enjoying rapid growth. But I want to see these benefits also spread more widely and more securely across all countries. That means pressing on carefully with capital liberalization.



Within the Organization for Economic Cooperation and Development (OECD), we have done a great deal to liberalize capital movements, and the European Union (EU) has prohibited all restrictions. At the IMF, too, capital account issues are becoming more prominent in surveillance and program design. But the Fund does not have an explicit mandate to promote further liberalization. The Articles were framed for a world of limited private capital mobility and widespread capital controls that is now long gone. They now need to be brought up to date to reflect the Fund's changed role in a transformed world.

In my Interim Committee speech, I called for the scope of Article I to be widened so that the Fund would encourage all members, over time, to liberalize capital account payments. Other Articles would need amending too, to bring them into line with this new mission. I hope that the Board will make early progress on this issue, so that we can consider specific proposals at the spring meetings next year.

As we continue with the process of capital liberalization, we must, at the same time, adapt our policies to cope with the new challenges that greater capital mobility will bring. For example, we need to strengthen the supervision and regulation of the financial system in many countries. And, of course, we need to work out how to manage domestic economic policy in the face of strong capital inflows.

The IMF and the World Bank have key roles to play here. They can advise on the implementation of standards for regulation and supervision and give technical assistance to countries trying to improve their procedures. And we look to the IMF to distill, disseminate, and help members implement the lessons we have already learned about the management of domestic policy in the face of liberalized capital flows.

### *World Bank Management*

Ensuring that the international financial institutions continue to adapt to the changing circumstances in which they operate is one of our key objectives. I congratulate President Wolfensohn on his efforts to initiate reform at the World Bank within a context of continuing budgetary discipline. His aim of an organization that focuses more clearly on results and is more suited to the modern world of liberalized capital flows is one that we all share.

If these aims are to be achieved, it is important that specific goals be set, against which the Bank's performance and the progress of the change initiative can be measured. In particular, I welcome the Bank's continuing effort to improve the coordination of its private sector activities.

### *Money Laundering*

In recent years, we have been working very closely with other countries to increase our efforts to tackle the threat posed by money laundering. We

take this threat very seriously, because it has a key role in protecting against the proliferation of serious crime. But money laundering also has significant implications for sustained economic growth and financial stability.

This is a problem that can only be effectively tackled on a fully international basis. International criminals will always seek out the vulnerable financial centers while any remain. Recent work done by the IMF shows convincingly how clamping down on money launderers will protect countries' economic reform programs against serious dangers.

- Reliance on short-term criminal money reduces confidence in the financial sector. It deters legitimate business. In turn, this damages liquidity and competitiveness and, ultimately, the country's scope for growth.
- Illicit flows can be unpredictable and volatile and can obscure trends in legitimate investment. This creates misleading signals, which lead to policy mistakes.
- Money laundering also has damaging supply-side effects. Dirty money will look for a home in businesses offering protection from the law, rather than in enterprises offering the best economic prospects and investment returns.
- And last, but by no means least, anti-money-laundering controls can increase the tools available in the fight against tax evasion.

Over recent years, the work that the Financial Action Task Force (FATF), and other organizations inspired by the FATF, have done on money laundering has been invaluable. I hope that this work can be taken forward in three key ways.

First, I believe that all countries' anti-money-laundering systems and procedures must strive to meet the highest international standards. That means the benchmarks set by the FATF. The FATF has recently updated its 40 recommendations to reflect changes in the money-laundering threat. I fully endorse these changes.

Second, the work of the FATF over the last few years shows how "peer group" pressure and encouragement can help to spread best practice in the international fight against money laundering. So, I believe we should actively support the establishment of regional anti-money-laundering review groups, modeled on the Caribbean FATF, to enable all countries to monitor each other's progress in the future.

Finally, given the economic and financial damage that money laundering can do, I strongly urge the IMF, the World Bank, and other international financial institutions not only to offer advice and technical assistance but to take fully into account progress in introducing anti-money-laundering controls, in line with the FATF standards, in their regular surveillance of members' economies.

Taken together, these measures will reduce the hiding places for dirty money—an important contribution to both the worldwide battle against organized crime and to the increased stability of the world financial system.

### *Surveillance and Data Standards*

Macroeconomic surveillance is rightly at the very core of the IMF's role. It is vital that the quality of surveillance be maintained and enhanced if we are to stand the best chance of preventing financial crises and promoting sustainable economic growth.

One way in which the Fund has answered this call is by establishing the Special Data Dissemination Standard (SDDS). I fully support the move toward greater openness in economic policymaking and surveillance in order to improve the quality of economic debate in our countries, as well as improving the flow of reliable information to investors and markets. I am pleased to say that the United Kingdom was the first country to subscribe to the new data standard. Now, over 30 other countries have followed our lead. The next step will be the establishment of a basic standard, which all Fund members should strive to meet.

I am also keen to encourage continued improvements in the surveillance conducted by the Fund during Article IV consultations. Here, we have been pressing for franker, more focussed reports and Board discussions. In my view, this frank and independent advice is one of the key benefits of being an IMF member. This summer, I became the first U.K. Chancellor to publish the Concluding Statement of the Article IV mission to the United Kingdom. I would urge others to do the same.

A logical next step would be to publish the Chairman's summing up of Board discussions of Article IV reports. The United Kingdom continues to support an IMF policy change that would allow this. I am aware that some members fear that frankness would be inhibited. If our experience with publishing the Concluding Statement is anything to go by, this should not be a problem in practice.

### *The World Economy*

World economic and financial conditions are very encouraging. The IMF expects the global economic expansion to continue at a satisfactory pace next year and over the medium term. The strength of the economic recovery has been particularly impressive in the emerging economies. Among most industrial countries, inflation has remained under control, but growth and labor market performance have remained uneven. Continental Europe has been particularly disappointing.

The United Kingdom is now doing better than any of its major European partners. The British recovery came sooner and has been steadier and

stronger. And we are reaping the benefits of over a decade of labor market reform. We have a lower rate of unemployment and a higher proportion of our people in jobs than any other major European country. Our industrial relations have never been better. Our living standards are rising, and our social standards remain intact.

*The U.K. Economy*

The IMF agrees with me that the United Kingdom will be the fastest growing major European economy this year and next. The IMF forecast for the United Kingdom confirms the broad picture set out in my latest official forecast, published in the summer. We expect activity to continue to gain momentum this year, as consumer spending continues to strengthen and as business investment revives. I expect the U.K. economy to grow by  $3\frac{1}{4}$  percent next year, without prejudicing our ability to meet the target I have set of reducing inflation to  $2\frac{1}{2}$  percent or less by the end of this Parliament. What is more, I believe that we can go on delivering the above trend growth over several years, as we close the output gap, without inflation reemerging.

I have said before—and I firmly believe—that these are the healthiest set of economic prospects we, in Britain, have seen in a generation.

It is 20 years ago, almost to the day, that a British Chancellor, Denis Healey, on his way to address the IMF Annual Meetings, turned back from the airport. He returned to face the worst postwar crisis in the British economy. When Denis Healey did finally speak to the IMF, it was to negotiate a massive loan in return for his agreement to make huge cuts in British public spending and capital investment programs. This ironic anniversary is the best evidence of the scale of the reform of the British economy over the last two decades. This recovery has broken the mold of previous British recoveries:

- During the 1970s recovery, it took more than two years for unemployment to begin to fall. In the early 1980s recovery, it took  $5\frac{1}{2}$  years. In this recovery, unemployment started falling after only one year. And it has gone on falling: down by nearly 900,000 in total. The IMF shares my belief that we can go on bringing unemployment down without any increase in inflation.
- During the early 1980s recovery, the U.K. economy met reviving demand by sucking in imports. Eventually, we found ourselves with a yawning gap in our current account. In this recovery, imports have grown, but exports have grown faster. Our current account is broadly in balance. In the latest quarter, we enjoyed our best current account performance for nine years.
- We are now in the fifth year of our recovery, and there are no significant signs of inflationary pressures. This has enabled me to keep interest rates close to their lowest level for 25 years.

- During the 1970s recovery, earnings growth never fell below 10 percent. During the 1980s recovery, earnings growth was never lower than 7½ percent. Currently, earnings growth is half that and, so far, has showed no signs of accelerating.

How have we cured ourselves of the British disease that brought previous recoveries grinding to a premature halt? The answer lies in the British government's far-reaching program of structural reform over the past 17 years. Our agenda of privatization, deregulation, and labor market reform has made the U.K. economy more flexible, more responsive to changes in market conditions, and less inflation prone. Our structural reforms were praised by the IMF Article IV mission to London this summer. They said they had "contributed greatly to economic performance" and offered "a genuine prospect of improvement in the United Kingdom's growth performance over the longer term."

I would single out our progress on labor market reform as truly remarkable. Twenty years ago, the British government was operating a "voluntary" incomes policy, where wage increases were decided in negotiations between the Chancellor and union leaders over beer and sandwiches. That may sound quite civilized, but, in reality, it was a form of unarmed combat. Conflict was the way that pay increases were secured. The number of working days lost a year because of strikes was 15 times what it is today.

We are finally breaking with the inflation psychology of British industry and the British people. In previous recoveries, British employers were too ready to take the easy route of giving in to excessive wage demands. They would always be able to push up their prices. British employees were always deceived by the big money increases that industrial militancy appeared to give them. The acceleration of inflation was inevitable. It was always not a matter of whether, but when, inflation sprang out of its box.

In contrast, this government is gaining the reputation it deserves for being tough on inflation. Our inflation target and our transparent setting of interest rates are gaining credibility. Inflation has been below 4 percent for over four years, the United Kingdom's best performance for nearly 50 years. We have said we will bring inflation down to 2½ percent or less, and we will. The IMF believes we will, and the British people believe we will.

The virtual ending of national wage bargaining outside the public sector has allowed individual enterprises and their employees to protect their best interests in a noninflationary world. Any employer facing an excessive wage demand knows inflation will not appear to bail it out. If wage increases cannot be paid for through increases in productivity, employer and employees know they will face the consequences, on profits and on jobs, of a loss in competitiveness. Good industrial relations, and a better

sense of shared responsibility and community of interest between employers and employed have kept earnings at sensible levels in this recovery, created new jobs, and kept unemployment coming down.

My overriding aim when I set the British budget in November will be to get government borrowing down to a sustainable level and to keep us on course toward a balanced budget. That is the background against which I shall then judge whether or not the government can make progress in its tax-cutting agenda. The British government believes in tax cuts, but only when we can afford them, and only when they make good economic sense.

Two years ago when I addressed these meetings, I spoke of my belief that the British recovery was going to follow a different, healthier pattern from the previous recoveries. The words of finance ministers should always be judged by results. Those two years have been positive proof that healthy lasting recovery can be achieved, but it must be sustained. If I keep the lid on inflation, if I can keep public borrowing coming down, and if I can keep on reforming the British economy and making it more flexible, then I am confident that the British economy can go on from strength to greater strength. With continued good economic management, this recovery could be the healthiest, the strongest, and the longest ever enjoyed by the people of the United Kingdom.

STATEMENT BY THE GOVERNOR OF THE FUND AND THE BANK FOR  
THE UNITED STATES

*Robert E. Rubin*

Good morning. It is a pleasure, once again, as I did yesterday when introducing the Vice President of the United States, to welcome all of you to the Annual Meetings of the IMF and the World Bank. Before I present the remarks that I had intended to present, I would like to comment on something that I saw in the newspaper this morning.

Over the past two years, I have been the Secretary of the Treasury, and in my many years when I was in the private sector I met with large numbers of finance ministers, business people, and heads of state. I developed a very strong feeling or view that one of the principal impediments to development in the developing world was the issue of corruption. I would like to very much identify with and support the comments of Michel Camdessus and Jim Wolfensohn yesterday with respect to lifting the fight against corruption to the top of their agendas, and also express the full support of the United States to this very important initiative.

Secondly, I would like to recognize that this is the first meeting at which there has been a united delegation from Bosnia and Herzegovina, and I think that is something that we should all note with satisfaction and good feeling.

Last year when the IMF and World Bank met, it marked the fiftieth anniversary of the Bretton Woods Conference. It was a historic occasion; it was also an opportunity to review the successes and challenges for these institutions and to focus on the vision going forward. As President Clinton has said many times, it is vitally important that these institutions adapt and renew themselves in the face of new challenges and new opportunities.

Last year he called for a number of initiatives to do exactly that. To advance the goals of long-term growth for all, we meet this week with three clear objectives: first, to work together to promote strong and durable global growth; second, to advance a sound development agenda; and third, to strengthen safeguards to the international financial system. Let me deal with each of these briefly.

There has been an emerging consensus over the last decade with respect to how best to promote growth, and it struck me, even in the last couple of days as I have met with finance ministers from the Group of Seven, from developing nations, and from transition economies, how widespread that consensus is. In a word, that consensus is to open markets, not close them; free businesses to compete, not restrain them; reduce deficits, not sustain them; and invest publicly in people, infrastructure, and the other areas critical to future productivity, not blindly ignore a wise and appropriate role for government. With so many economies now basically following this approach, the fundamentals of the global economy are more solid than they have been in a long, long time.

Here in the United States, we have had solid growth and low inflation. While many factors have contributed, I believe the key and indispensable factor was the deficit reduction program of 1993, which changed the fiscal direction of this country.

In addition, the President has focused on investments in education and training, the other areas critical to future productivity, and on opening markets around the world, including opening our own markets. I believe that if we continue to follow the right policy path in this country, we can have solid growth and low inflation on balance over the long term. That is good for us and it is good for the rest of the world.

As I mentioned, I believe that our approach to promoting economic growth is in line with the emerging consensus around the world. But we well recognize that taking actions such as cutting budgets—while absolutely essential to economic health—is also difficult, and that too often the burdens fall on the least well off in our societies.

That does not mean that we shouldn't act, but it does mean that we should act with fairness, compassion, understanding, and a commitment to

equip the least well off with the tools that they need to be successful in the mainstream economy.

Our second objective this week, which to some extent I have already touched on, is development and promoting growth in poorer nations and raising living standards for all people. This should be a priority for all of us, no matter what our stage of development. For one thing, it is the right thing to do. Secondly, it is overwhelmingly in the self-interest of the developed nations, both to promote stability and to create bigger markets for all of us.

I have had the opportunity to visit the work of the multilateral development institutions in a number of countries—India, Indonesia, the Philippines, Argentina, and Brazil. I was struck by the effectiveness of the programs that I saw. One of the conclusions I reached was that it was enormously important for us to try to get members of our Congress to visit these kinds of programs and these kinds of projects, and to see what these institutions are doing on the ground.

I was also struck by the major challenges these countries face in growing their economies.

Multilateral development banks have a unique role to play in fostering growth around the world by building the underpinnings of a private sector economy and by meeting the needs that free markets by their nature will not meet. This means focusing more selectively on the poorest developing countries, on education and health care, and on the environment. This means encouraging these institutions to be more innovative with respect to financing mechanisms in order to catalyze private investment.

Moreover, in order for these initiatives to work, they must be part of a joint venture between the institutions and between the receiving countries that are committed to reform.

One clear obstacle to growth has been unsustainable levels of debt in some of the poorest countries. The World Bank, the IMF, and the Paris Club have now reached agreement with a program that will be a comprehensive approach to reducing the excess of debt of several of the poorest countries to sustainable levels. We now need to work to bring together the rest of the international financial institutions into this effort. As the Vice President said yesterday, and the President said at this same meeting a year ago, the United States is committed to its leadership role in the global economy and to meeting its financial responsibilities to these international financial institutions. The Administration has been making, and will continue to make, the fullest and utmost effort to work with our Congress to achieve those ends.

In that regard, let me touch on a sensitive subject. I well understand why the eleventh replenishment of the International Development Association (IDA-11) Interim Trust Fund has procurement restrictions, but I can tell you from working with the members of Congress, as we think now about getting funding, going forward for IDA-11, that these restrictions



have created enormous resentment, even among those who are most supportive of IDA-11 and who feel the United States has played a leadership role over many decades in the global economy. I believe that these restrictions are counterproductive with respect to future funding and would urge that they be removed.

The World Bank has made great progress for making itself more effective. As the Vice President said yesterday, President Wolfensohn deserves a great deal of credit for his good work. But we need to continue in encouraging good governance, and that very much includes the issue of corruption that Michel Camdessus and Jim Wolfensohn raised yesterday, increasing transparency, measuring results, expanding microenterprise lending, strengthening our capacity to deal with the national crises, as well as the issues I discussed a few moments ago.

The third objective for the week is to carry forward the progress we have made in strengthening safeguards of the international financial system against risk.

At Halifax and again at Lyons, Group of Seven leaders agreed to an ambitious program of initiatives to safeguard financial stability in the global markets. Virtually all of the initiatives that were brought forth have now been brought either to completion or almost to completion, including strong IMF disclosure standards to prevent future crises, the new arrangements for borrowing to expand the resources available to the IMF for financial emergencies, recommendations to facilitate market-based solutions to sovereign financial crises to reduce the expectation of official finance, and encouraging private investors to focus more attention to risk.

Just as with the debt-reduction program that I mentioned a moment ago, which was also a Halifax initiative, these accomplishments show that we can achieve major objectives when we work together.

Over the coming year, we strongly urge that the IMF and the World Bank, in cooperation with international financial supervisory bodies, take up the Group of Seven call for following through on the Lyons communiqué to promote soundness in the financing systems of emerging countries. Too often banking problems and capital market problems have undermined economic growth and progress in these developing nations.

Let me conclude by expressing the President's strong conviction that the economic futures of all nations are inexorably linked. Here in the United States, our jobs and living standards are increasingly and substantially affected by whether our global partners, including the developing nations, are prosperous and growing.

The same is true for all the nations of the world. It is a strong conviction of the President and this Administration that the only effective path toward future prosperity for all of us is to work together and that, by working together, we can promote a strong and growing global economy for all of us.

## STATEMENT BY THE GOVERNOR OF THE BANK FOR URUGUAY

*Luis A. Mosca*

As the representative of the Latin American countries and of my own country, Uruguay, I am very pleased to have this opportunity to address these Annual Meetings of the Governors of the International Monetary Fund and the World Bank.

Over the past year, the World Bank has made a number of decisions with important implications for our region. First, I wish to refer to the introduction of loans denominated in a single currency chosen by the borrower. This is a historical event, and a change that had been long called for by our countries. I congratulate the institution—particularly its President—on its work in bringing this measure forward, since it will serve to reduce both the cost of debt servicing and the effects of exchange rate volatility.

The Bank has enormous potential for providing its clients with new, competitive, and innovative financial products, and for transferring its knowledge of external asset management based on the experience it has gained from operating in international financial markets and managing its own assets. We therefore believe that the Bank should develop new activities in these spheres, thus providing a complement to its other services.

Consistent with this, we believe that the Multilateral Investment Guarantee Agency (MIGA) should be increased as soon as possible by means of a capital transfer from the Bank. This will enable the Agency to strengthen the essential role it plays in facilitating external private investment in the region and to overcome the constraints resulting from its clearly inadequate level of resources.

Similarly, we approve of the efforts made to increase International Finance Corporation (IFC) operations for financing the private sector, particularly in those countries of the region where its activities are still limited. It should basically be concerned with small- and medium-sized enterprises, and—as far as possible—it should maintain its current form of organization so as to avoid cost increases and any risk of fragmenting its operations.

Recently, the possibility was discussed of establishing a guarantee fund—financed from the Bank's net income—to facilitate participation by the private sector in the financing of infrastructure and the provision of public services. We believe it is crucial that this proposal be implemented as soon as possible, since it would be an effective complement to current structural reforms. I should also add that a country's sovereign guarantee should not be considered essential for such operations, and that subsidiary forms of guarantee presented by the borrowers should be acceptable.

To turn to another topic, I wish to state that the initiative now under discussion for providing relief for the heavily indebted poor countries both recognizes the reality of the situation, and provides a response to the pressing needs of many countries affected by external payment problems. It is thus a milestone in the history of the Bretton Woods institutions. For the first time, definite mechanisms will be set up for reducing the burden of debt owed to multilateral organizations. Both pragmatically and imaginatively, an effort has been made to solve the problem of the unsustainable debt of a number of countries and to enable them to resume growth. In this same context, we believe it is essential to preserve the Bank's preferred creditor status and that bilateral debt should continue to be classified as subordinate.

Second, the Bank's contributions must be commensurate with those of other creditors, and this must be clearly stated in the documentation relating to the debt initiative. As Mr. Wolfensohn stated when he became President, the institution is immersed in an intense restructuring process that is essential if it is to adapt to its new challenges. Among these, decentralization is an important component, and it will call for considerable efforts to be made, even at budgetary level, our region being one of the areas in which this process has already begun. In order for the region to achieve its objectives, it must be provided with the necessary budgetary resources, otherwise decentralization will take resources away from other urgent activities. If the necessary corrective steps are not taken, the quality of services and scope of assistance provided for our countries will be compromised.

Each year, the Bank generates substantial amounts of net income. The basic criterion for their application must be to maintain a sufficient level of reserves to ensure the institution's financial integrity. Historically, decisions on how to distribute the resulting surplus have not been easy. We wish to repeat that the institution must continue to analyze closely how its net income is generated and used through a frank and open dialogue involving all parties. In this way, we will ensure that the available resources are efficiently applied, and will, at the same time, preserve both the multilateral character of the institution and its financial integrity.

### *The Bank and the Region*

I would now like to focus on regional topics, and must say with some satisfaction, that over the past year most of our countries have achieved fiscal consolidation and resumed economic growth, overcoming the adverse effects of the crisis that occurred at the end of 1994.

What happened goes beyond the cold, stark message conveyed by indicators. Events showed that the region was capable of responding promptly and resolutely to the crisis—in some cases, by deepening the programs of reforms, and in others by ensuring that macroeconomic programs were truly consistent.

The fact that these responses were possible is—in our view—clear evidence that the development strategies adopted had been the right ones, and the process showed that the structural reforms implemented throughout the region were irreversible. From now on, the two key questions are: how can we deepen them, and what additional steps should governments place on their agendas? There is no longer any question as to the need for—and relevance of—the current reforms, and we must concentrate our efforts on continuing them and optimizing their effects, in accordance with each country's needs and circumstances. If we are able to do this, we are sure that the region will continue to be one of the most dynamic areas of the world. We have sufficient evidence of this, given that, despite the past year's crisis, substantial volumes of direct external investment continued to flow in, offsetting the temporary decline in portfolio and equity investment.

Similarly, during the first half of 1996, new bond issues in the region were double the amount for the same period last year, while maturities were longer without interest rates being significantly higher. This is confirmation that the international financial community now has greater confidence in the economic programs that have been implemented and in the future of our economies.

Nevertheless, we must acknowledge that the region still faces considerable challenges. The reform program must be further extended and brought into new areas. For example, reforms in the financial sector and social security systems are key to ensuring that the changes already introduced will be consistent and irreversible. Also important are administrative reforms, so that central and state government policies can be better coordinated, thus removing the constraints that characterize many countries in the region and make their economic programs less cohesive.

As regards social concerns, the elimination of poverty has yet to be achieved despite all our efforts. Together with this, the continuing deterioration of social capital—mainly in urban areas where poverty has reached critical levels—is becoming alarming. In addition to this, some countries are seeing the development of high rates of unemployment that will become unsustainable over the medium term.

The World Bank can play a crucial role in helping improve these conditions; first, by increasing its resource flows to the region so that these can be used to finance basic infrastructure, thus complementing private investment; and second, as we have already said, by establishing mechanisms such as the guarantee funds in order to facilitate the participation of the private sector in this undertaking.

It is likewise essential to upgrade our social capital so as to provide stability and justification for the reform process. Direct measures are needed for eliminating extreme poverty, improving basic and technical education—the purpose being to produce a skilled labor force and increase overall productivity—and enhance the delivery of basic services.

At the same time, there are spheres of management in many countries in the region that require profound structural changes or new regulatory frameworks. Some of the most obvious examples are reforms of social security systems, deregulation of labor markets, and the appropriate regulation of financial systems.

In all these areas, the Bank has an important role to play, contributing its rich experience in these fields, as well as its financing. Consequently, we wish to repeat that the budgetary resources necessary for financing these activities must be made available.

Finally, the IFC must help promote the small and medium-sized enterprise sector by providing technical assistance and the necessary financing. The nature and functions of the Corporation make it the ideal organization for providing such support.

I must also say that we are very pleased to see the Bank and Inter-American Development Bank (IDB) coordinating their efforts and resources, since this will help increase the effectiveness of the contributions made to development in our countries by both institutions—and particularly by the Bank.

### *Uruguay*

I would like to refer briefly to recent events in the Uruguayan economy. First, Uruguay has resumed growth after a short interruption that began in 1995 as a result of the regional recession. Fiscal consolidation continued, producing a steady and sustained fall in the inflation rate without any serious underlying macroeconomic tensions, thus validating the gradualism of our strategy. This progress toward stabilization is significant in a country affected by endemic inflation and makes it essential that we persevere in our efforts.

Over the past year, several important reforms began to be implemented. First, the reform of our social security system is a landmark in the history of our country, especially given that this institution is one of the cornerstones of our national identity. The transition from a tax-based to a fully funded system exceeded our most optimistic expectations, indicating overwhelming acceptance of the proposed reform. A second series of reforms was applied to the state, the purpose being to increase efficiency and overall productivity and free up resources for the development of private sector activities. This law has just been passed and provides for a series of measures for modernizing the state, making it more efficient and, as a result, helping increase overall productivity.

Further basic structural changes have been applied to the system of primary and secondary education and are designed to maintain the high standard of education while preparing future generations to deal with the new demands they will encounter in the labor market.

This set of current reforms will make it possible to increase our competitiveness so as to benefit from the advantages offered by the southern cone common market (MERCOSUR) and adapt the country to the challenges posed by the increasing globalization of factor markets.

MERCOSUR itself has now become one of the most dynamic economic integration systems in the world as a result of the recent agreements with Chile and Bolivia and the framework agreement with the European Union, which provides a basis for achieving tariff convergence between both regions.

We trust that now that we are on a path that offers enormous potential for the region—and particularly for Uruguay—the World Bank will play an active part by contributing its valuable experience and its resources, helping us take full advantage of the vast range of opportunities presented to each member.

#### STATEMENT BY THE GOVERNOR OF THE BANK FOR VENEZUELA

*Luis Raul Matos Azócar*

It is an honor for me to be the Fund's representative for the Latin American countries at these meetings and to act in this capacity on behalf of the Governor of the International Monetary Fund and President of the Central Bank of Venezuela, Dr. Antonio Casas González.

I am addressing you at a time of economic integration and globalization. These have become irreversible facts of life that leave our countries no alternative but to exercise discipline in our economic policies, if we wish to avoid the backlash of the markets, and if our people are to reap the benefits of sustained and equitable economic growth with low inflation.

I must point out that the economies of the developing countries, especially the emerging economies, have been leading world production growth since the beginning of this decade. The economies of Latin America, in particular, have been revitalized; recovery is becoming stronger; intraregional and extraregional trade continues its vigorous growth; and confidence is returning. This is reflected in the full resumption of capital flows to our region, which is on the verge of recovering its true potential and reclaiming its place in the world economy. Although we have certainly not rid ourselves of all the problems of our economic past, we are now firmly convinced that sound economic policies, together with appropriate social policies, are the key to progress and development.

Our region's production is expected to increase by 3 percent in 1996. Though this level of growth is still very low, especially in comparison with population growth, it is nevertheless a vast improvement over 1995. Though inflation remains very high, it continues to decline markedly, as national and international confidence in our economies is restored, following the regional and potentially systemic impact of the Mexican crisis. These results show the true economic potential of Latin America and sharply contrast with the prevailing pessimism about the region throughout the 1980s.

There is nothing hypothetical about the significance of the growing developing country—and consequently Latin American—share of world production. If the current trend continues, in less than 10 years the GDP of the developing countries will exceed that of the industrial countries, and I am quite sure that the economic and political impact will be resounding.

In the economic sphere, the strong performance of the developing economies prevented a worldwide recession at the start of this decade. In the political sphere, it is necessary for these countries to claim the rights due to them, because of their growing economic importance, in international forums and institutions. Similarly, just as the countries have had to rise to the challenges of globalization, the multilateral institutions will also have to adapt progressively to changes in their decision-making structures if they are to remain relevant in the future.

In that connection, it is inconceivable that key decisions affecting the rules of the game and the conditions in international financial and monetary circles should continue to be taken without appropriate or representative participation by the emerging and developing countries. I am sure that the Latin American countries will be equal to the task of invigorating the Group of Twenty-Four—which is also at risk of losing its relevance to its members—and of energizing our own regional and subregional organizations so that Latin America will have a greater say in important forums and institutions.

We must recognize the very significant role played by the Fund and the Bank in creating this generally favorable situation in the world economy and in our Latin American region; the Fund, through its tireless efforts to promote sound macroeconomic policies, and the Bank through its development financing. These institutions are urged to continue providing their invaluable support for the sustained and more equitable growth of the economies of their members. In order to do so, they must have the necessary resources to fulfill their purposes.

We agree that there is a need to continue strengthening the surveillance role of the Fund, both in the industrial and in the developing and transition countries. We therefore welcome the updating of the Madrid Declaration, recently adopted by the Interim Committee.

It is significant that the Declaration on the Partnership for Sustainable Global Growth stresses the close interrelationship between macroeco-

conomic policies and structural reform—the former are only effective and can only be sustainable in the long term if the latter are implemented; the strengthening of financial systems and banking supervision, both nationally and internationally; and, in particular, the importance attached to human development and the need to improve the quality and efficiency of public sector management in all countries.

We believe that the major industrial countries bear particular responsibility for the systemic impact of their policies on the world economy as these affect the possibilities for growth and development in the rest of the world. We therefore insist on the need for those countries to further their fiscal consolidation efforts and firmly undertake the structural reform necessary to ensure that the behavior of long-term interest rates and the attainment of a reasonable level of exchange stability among the major reserve currencies will continue to be conducive to sustained world economic growth.

As representatives of Latin America in the Fund, we also believe that a more rapid conclusion of the Eleventh General Review of Quotas is necessary for the Fund to be able to carry out its financial mission. In this connection, we have been in support of doubling the current quotas. We also welcome the New Arrangements to Borrow, but we hope that these new lines of credit will be more useful than the General Arrangements to Borrow proved to be when Mexico faced the first crisis of the twenty-first century.

An important dimension of the Fund's cooperative role is international solidarity, which has been reflected in the progress announced by the Interim Committee regarding the continuation of the Enhanced Structural Adjustment Facility and the efforts to make it self-sustaining. Many Latin American countries have already demonstrated that they are more than willing to collaborate.

We support the joint initiative of the IMF and the World Bank on behalf of the heavily indebted poor countries, but maintain that the eligibility criteria must attach equal importance to the fiscal burden of debt service as it does to external debt-exports ratios. One should also take into account, on a case-by-case basis, the particular circumstances of countries with a high proportion of multilateral debt.

I also wish to point out the growing importance that the IMF is attaching to the social dimensions, as I myself have witnessed in the case of Venezuela. This is concisely, but admirably, stated in the Interim Committee Declaration on the Partnership for Sustainable Global Growth, which stresses the importance of improving the quality and composition of fiscal adjustment; developing and protecting human resources in all countries by increasing spending on education and training; reforming public health and pension systems to ensure their long-term efficiency and viability; alleviating poverty; and providing well-targeted but affordable social safety nets. All of this will, of course, have to be done in coordination with the other international organizations.



In addition to these social guidelines, the Declaration also calls for an improvement in the quality and efficiency of public sector management, including combating corruption, which has been championed by President Caldera's administration, at the national and international levels, and which is a prerequisite for the material and moral well-being of our people.

Who would have thought that only a few years ago these concepts of social order, which are now set out in a very important declaration by the Interim Committee, would have become a part of the economic philosophy of the International Monetary Fund. Without wishing to detract from the achievements of others who may be equally deserving, I wish to pay tribute to the influence of a man of singular intelligence and technical and diplomatic skills, who has left his mark on this institution over the past 10 years, in particular, by making it more humane and socially oriented, and who has deservedly been reappointed to the helm of the institution. I refer to Michel Camdessus. We trust that Mr. Camdessus will entrench and indelibly imprint these social ideals on the philosophy of the Fund during his new term.

We cannot ignore the persistent problems in developing countries and in Latin America, which have yet to, or are just starting to, implement a critical mass of macroeconomic and structural reforms. As a result, we in Latin America continue to face very complex challenges—most of them structural in nature—and must tackle them with resolve and courage and with the support of the international community.

It should no longer be surprising, for instance, that a number of Latin American countries have had to resort to prudential regulations to discourage inflows of speculative capital and to attract long-term capital, preferably in the form of direct investment. Capital volatility may require action on the part of the international community and the International Monetary Fund, in particular, and should be directed toward assisting our countries to solve these complex problems in a pragmatic manner, rather than systematically resorting to conventional methods, since these can have serious adverse repercussions on our competitiveness.

The issue of capital flows is closely linked to the soundness of our national financial systems. We are making a great effort to strengthen these systems and improve supervisory capacity. The call to strengthen our national banking and banking supervision systems and the international coordination of supervision is welcome and timely.

Achieving good governance is another of the major challenges facing Latin American countries. This can have a profound positive effect on income distribution and, consequently, can reduce and possibly eradicate poverty in our countries. Bearing that in mind, our efforts should now be directed at reinforcing mechanisms that provide for sound management and supervision of markets and economic operators; at more efficient taxation; at strengthening the rule of law and the legal security of persons and

investments, which includes a strong commitment to fight against corruption; at regional administrative decentralization, guarding against the proliferation of unproductive and inefficient bureaucracies; and at guaranteeing that our citizens are provided with health, education, and social security services—the best tools governments can use to place people at the center of the development process, truly achieve better income distribution, and reduce poverty in a democratic society.

These structural reforms require the advisory, technical, and financial assistance of your institutions. It is therefore disconcerting to note that net financial flows from the World Bank to Latin America are currently negative. This situation must be remedied without delay.

### *Venezuela*

This audience is well aware of the efforts the government of Venezuela is making to implement an economic stabilization program aimed at controlling inflation and laying the foundations for sustained development. This process involves the incorporation of the human, social, and political components to make such development viable within the context of our democratic institutions.

After nine months of difficult but creative negotiations with the Fund, the Bank, and the Inter-American Development Bank (IDB), which has been a learning experience for all concerned and which allowed for a transparent discussion of the economic and social program, the Venezuelan Agenda, President Caldera's administration, despite its minority status in the congress, succeeded in passing a series of measures that changed the quality of fiscal revenue in a very short span of time.

At the risk of seeming overly optimistic, let me say that the stabilization program is firmly on track and that our economy is reaping the benefits of the renewed confidence of domestic and external economic transactors. Perhaps even more important, anti-inflation performance under the program is virtually on target, which, I understand, is not always the case with many Fund programs. Now, in September, the inflation rate is already almost four times lower than it was five months ago at the start of our stabilization program. Though still high, its rapid reduction is evidence of the strength of the government's fiscal policy and the central bank's monetary policy, as well as the determination and consistency with which they have been applied.

We hope to see a slight fiscal surplus in 1996, as opposed to the deficit of 8.3 percent of GDP reported in 1995. This is the result of the disciplined implementation of all the fiscal revenue and expenditure measures and stronger oil prices on international markets. These circumstances did not weaken the government's resolve to implement the program but strengthened it and bolstered the program itself.

These results were achieved by sterilizing the additional resources in a fund to pay the public debt, manage the debt, and begin to finance the contingent liabilities of the public sector, all of which will also help to facilitate the process of public sector restructuring. We have changed our approach and will not stimulate artificial growth through government spending.

Venezuela has made every effort to pay its external arrears. We are adhering to the schedule set in the program with the Fund and have been able to successfully place US\$500 million in bonds on the German market. Our steadfast implementation of these fiscal and monetary policies has been reflected in the renewed confidence of economic transactors and the stability of our currency. International reserves have also increased substantially. The banking sector is considerably stronger, as is the supervisory capacity of the Superintendency of Banks. A process of reprivatizing nationalized banks has been started in the wake of the crisis. Various enterprises essential to the economy—telecommunications, aluminum, and iron and steel—are also being privatized.

Despite the hardship that this economic program has caused, it is being implemented in a climate of stability and social peace, surprising to many. In my opinion, this is mainly the result of the substantial reinforcement of social safety nets for the most vulnerable segments of the population and the government's active, transparent, sincere, and convincing information campaign to explain to the people the scope, objectives, and probable effects of the program. This has helped to strengthen the concept of national ownership of the program and made it more likely to succeed.

The results so far show growing confidence on the part of economic transactors and enable us to be optimistic about the future, provided that we stick firmly and consistently to the course we have charted with the Fund's support. As evidence of the government's willingness to do so, I wish to restate our intention to deepen structural reform with advisory assistance from the Fund, the Bank, and the IDB, because we are convinced that the real root of our economic problems is structural.

Before concluding, let me make a point that has to do with Venezuela but might be of interest to all countries. Economic activity is not generating the levels of employment or rates of job creation to which we were accustomed in the past, and we all know that the best social policy is a policy that guarantees a stable income and creates the conditions for building a society in which there is opportunity. We are designing programs, in conjunction with the World Bank and the IDB, to improve family income and train young school dropouts, pending the conversion of Venezuela, through the structural reform of the education system, into a society offering the opportunities we all wish to see. These examples illustrate our concern for the human dimension, which is the basis for all our government's actions and which is also the basis of the Interim Committee declaration.

## STATEMENT BY THE GOVERNOR OF THE FUND FOR VIETNAM

*Cao Sy Kiem*

First of all, allow me on behalf of the Vietnamese delegation to extend our warm greetings and best wishes to the Chairman, the Managing Director, the President, the distinguished Governors, and the other participants present here today. I would like to take this forum to express Vietnam's high appreciation of the efforts exerted by the IMF Managing Director and the World Bank President in promoting the activities of our two institutions.

I would like to join the previous speakers in commenting that world economic growth has continued, on average, at a satisfactory pace, supported in particular by buoyant growth in many emerging-market countries. However, growth slowed more markedly than expected during 1995 in western Europe and North America, leading to further increases in unemployment in some countries from already high levels and also to fears of a new economic downturn.

It is said that a number of positive trends and developments point to the likelihood of continued, relatively solid world growth in the period ahead. Global inflationary pressures remain subdued. It is interesting to note that capital flows to emerging market countries have been generally well sustained following the containment of spillover effects from the Mexican crisis. Recoveries already seem to be under way in both Mexico and Argentina, and activity remains buoyant in many other emerging-market countries where the danger of overheating appears to have subsided. It is also necessary to stress that some of the poorest countries, especially in Africa, have strengthened their growth performance and prospects as a result of intensified adjustment efforts.

World trade has continued to expand faster than in the past. The relationship between output and trade growth would seem to predict continued economic expansion reflecting the liberalization of trade and the trend toward current account convertibility in recent years, together with the dynamic forces of globalization. Clearly, progress in implementing policies consistent with the global strategy set out by the Interim Committee three years ago, and reaffirmed in its October 1994 Madrid Declaration, has brought significant results in many years.

Since the normalization of their relations with Vietnam in October 1993, the IMF and the World Bank have continued to provide vigorous support and assistance to Vietnam in terms of medium-term economic programs, long-term projects, and technical assistance. This support has played an important role in helping Vietnam maintain sustainable economic growth and control inflation.

Vietnam is implementing the three-year economic program supported by the Fund's Enhanced Structural Adjustment Facility (ESAF) with the total value of SDR 362.4 million (about US\$525 million). So far one-half of the available amount has been disbursed. In early September, an IMF staff mission joined the Vietnamese government in Hanoi in conducting the midterm review of the second-year ESAF arrangement to provide a foundation for the IMF Executive Board's consideration and approval of the fourth drawdown of about \$88 million next November.

Vietnam's IDA credit-funded portfolio continued to expand in FY 1996, adding another five projects to the six approved in FY 1994 and FY 1995 for a total of eleven, including one structural adjustment credit. In addition to the credit-funded portfolio, IDA is also assisting Vietnam through a grant-funded technical assistance portfolio consisting in FY 1996 of 50 projects or consultant assignments totaling some \$27.5 million. Although Vietnam's Bank-funded projects are still new, with our own efforts and the wholehearted assistance and support of experienced Bank staff, the implementation of these projects has made remarkable headway. It is interesting to recall that annual project approvals have occurred as programmed, credit effectiveness has been achieved quickly, key indicators of project development and implementation performance are rated satisfactory by Bank staff, and cumulative disbursements were close to projections. However, we are fully aware that we should make further efforts to accelerate the qualitative and effective implementation of these projects so as to increase the confidence and satisfaction of the IDA donors.

Allow me to review the economic development of Vietnam over the past year. The export-led expansion of recent years continued during the first half of 1996. Buoyed by a record agricultural harvest and strong industrial growth, real GDP grew at an annual rate of over 9 percent. Despite this rapid growth, inflation fell to 2.2 percent per annum by the end of August 1996. The reduction in inflation partly resulted from falling rice prices and an abundant import supply following trade liberalization moves early in the year. Monetary policies have been kept particularly tight, with domestic credit expansion effectively controlled through bank-by-bank credit ceilings and high real interest rates.

Our country is entering into the last five years of this century with much bigger potential and opportunities than in previous years, together with bitter challenges. In this context, in late June 1996 the Communist Party of Vietnam convened in Hanoi its eighth National Congress to work out the five-year (1996–2000) economic plan on the basis of the following guidelines: first, to realize simultaneously the four economic targets: a high sustainable and efficient economic growth; macroeconomic stabilization; preparation of the premises for the phase of more advanced development beyond the year 2000, mainly the development of human resources, science and technology, and infrastructure; and the streamlining of the in-

stitutional system. Second, to continue in a consistent manner and on a long-term basis the policy of developing the multisector economy, bringing into full play all resources for the development of productive forces, and improving the market mechanism with state management. Third, to ensure that economic growth goes hand in hand with social and cultural development, and to concentrate efforts on solving pressing problems with a view to tangible improvements in social equity and progress. Fourth, to combine economic development closely with sociopolitical stability and to enhance efficient utilization of resources. Fifth, to combine the development of key economic regions with that of other regions, creating conditions for all regions to develop and bring into full play their own comparative advantages, thus avoiding excessive growth disparity among regions.

Resources and efforts are to be concentrated on attaining development targets in the next five years, i.e., to achieve an average annual economic growth rate of 9–10 percent, and, in the year 2000, to double per capita GDP over that of 1990. In industrial output, the goals are to obtain an average growth rate of 14–15 percent per annum, to increase agricultural output by 4.5–5 percent, services by 12–13 percent, and, in actual performance, to strive to attain an even higher growth rate.

We are facing a bright prospect with innumerable challenges to be surmounted by enormous efforts of the entire nation with the valuable support and assistance of the world community, including the Fund and the Bank. We therefore have every reason to firmly believe that the objectives charted out by the eighth National Congress of the Communist Party of Vietnam for the next five years will be accomplished successfully.