DISCUSSION OF POLICY AT FOURTH JOINT SESSION[1]

STATEMENT BY THE GOVERNOR OF THE BANK FOR THAILAND

Surakiart Sathirathai

It gives me great honor and pleasure to address the 1995 Joint Annual Meetings of the Boards of Governors of the World Bank Group and the International Monetary Fund.

First of all, allow me to join fellow Governors in expressing deep regret on the passing away of Mr. Lewis T. Preston. We will all remember him as one of the most distinguished Presidents of the World Bank. Please also allow me to welcome Mr. James D. Wolfensohn as the Bank's new President. I am sure that his great expertise will serve the Bank and member countries well.

At this Joint Annual Meetings, Thailand is very pleased to join all other members in welcoming Brunei Darussalam as a new member of our Bretton Woods institutions.

This year, the world economy has continued its upward momentum despite a number of systemic disturbances and a slowdown in most industrial countries. Inflationary pressures have generally subsided. Robust growth has been observed in developing countries, particularly in Asia. These developments have been supported by sound economic fundamentals and progress in economic reforms that have helped the countries concerned to better withstand external shocks and sudden shifts in market sentiment. Meanwhile, through determined reforms, economies in transition continue to make progress toward a market-based economic system. Those in Southeast Asia, in particular, have made great strides in economic reforms and deserve strong support from the international community.

Recent policy coordination among industrial countries has helped restore confidence in the foreign exchange markets. Many challenges remain, nonetheless, to be addressed in the immediate future. Of particular concern to policymakers in emerging markets is the size and pace of short-term capital flows. Many of them have, therefore, justifiably resorted to temporary restrictive measures in order to alleviate the situation. The sensitivity of borderless markets to systemic threats has made it urgent for authorities worldwide to strengthen their communication channels and policy coordination.

[1]October 11, 1995.

Exchange rate misalignment and banking crises are indeed areas which require closer and more coordinated policy actions. In addition, more coordination is needed to alleviate frictions in the global trading environment.

Turning to the Thai economy, export growth of 24 percent and a strong economic growth of over 8.5 percent are expected this year, in line with the upward trend in other emerging economies. Notwithstanding this buoyancy, inflationary pressure is expected to remain manageable. Meanwhile, the slightly widening current account deficit reflects Thailand's high rate of investment. Intensified savings mobilization efforts will help trim the deficit in the medium term. International reserves, now approximating \$35 billion or equivalent to 6.6 months of imports, stand as concrete evidence of the country's economic strength.

The rapid growth of the Thai economy has made it essential for the financial sector to accommodate the increasingly sophisticated needs of enterprises and industries. Therefore, we have pursued financial broadening and deepening strategies with an aim to encouraging mobilization of long-term funds, removing the limitations, and upgrading Thai financial markets to an international level.

First, the Government continues to encourage more participation of institutional investors in the Thai financial markets. We plan to grant more mutual fund and private fund management licenses to qualified financial institutions. The Government Pension Fund is being set up and expected to actively take part in the capital market. In addition, more private firms and public enterprises are encouraged to set up their own provident funds. Of particular interest to foreign investors is the Thai Trust Fund, which would enable foreigners to circumvent the existing shareholding limitation of 25 percent.

Second, Thailand is committed to the policy of financial liberalization. A number of foreign banks operating in international banking business in Thailand (BIBF) are being upgraded to a full branch status. The second round granting of more BIBF licenses is in the pipeline. In addition, we are allowing more commercial banks to be set up in Thailand. These liberalization measures are steps toward establishing Thailand as a regional financial center.

Finally, and most importantly, the Government has consistently adhered to fiscal and monetary prudence. The government budget has been in surplus for eight consecutive years. For this year, although the Government has proposed a balanced budget policy, we are forecasting another year of budgetary surplus. Thailand's exchange system has long served the country well both in terms of ensuring steady growth of exports and maintaining market confidence. The present system of basket peg, together with fiscal and monetary discipline, will continue to be the anchor of Thailand's economic growth and stability.

Let us now share some thoughts on issues related to the policies and operations of the Bretton Woods institutions.

For decades, the Bank has been playing a constructive role in helping the developing countries achieve a better standard of living for their people. We would like to record our appreciation for the Bank's great efforts in combating poverty, protecting the environment, as well as emphasizing the area of human resource development.

While the Bank has accomplished poverty alleviation at a satisfactory level, there are still a large number of countries and several groups of people enduring poverty. We, therefore, urge the Bank to adhere to its spirit of abating poverty and be more aggressive in overcoming this problem.

On the Bank's lending system, we welcome the Bank's decision to expand the single currency loan program, which allows borrowers greater flexibility in the management of their liabilities, particularly reducing the foreign exchange risk. However, we feel the program's loan size is too restrictive. To this effect, we would like the Bank to further liberalize the access to this program.

Let me, at this point, conclude with a few remarks on Fund matters. Thailand always welcomes efforts to increase Fund resources both to finance Fund-supported programs on a wider scale and to arrange for contingency plans in response to emergencies. The Fund's liquidity position is projected to decline somewhat over the next two years. Therefore, we strongly urge the Fund to expedite the Eleventh General Review of Quotas. This review should adequately provide for selective increases that bring actual quotas more in line with calculated quotas for the largest number of countries possible. As for expansion of the General Arrangements to Borrow (GAB), the Group of Ten Halifax summit communiqué, which endorsed the idea to double the amount currently available under the GAB, is timely, but it should not be a substitute for a quota increase. A revision of the current GAB should be explored in order to attract greater participation in the new arrangement.

To improve the Fund's early-warning mechanism, it is imperative that surveillance be strengthened and applied on a symmetrical basis. Borrowing and nonborrowing countries as well as countries with potential impacts on the global exchange market and international capital flows alike should receive effective and commensurable treatment. For the least developed countries, where structural adjustments may be too difficult without special support from the Fund, we believe that the continuation of the enhanced structural adjustment facility (ESAF) would help soften the pressure. We thus hope that the framework for financing the ESAF can be speedily finalized to the benefit of low-income countries.

On the proposal to expand the institution's role and jurisdiction in the capital account against the backdrop of higher globalization and liberalization of financial markets, we share the view that capital account convertibility deserves careful deliberation on the part of the authorities. No member, however, should be pressured to move prematurely towards relaxation of capital controls.

I also would like to call on all members to work cooperatively on the prolonged issue of SDR allocation. An early conclusion would help meet reserve needs of developing countries.

In conclusion, we wish the Bank and the Fund every success in managing the forthcoming difficult challenges and in further improving their development activities for the benefits of all members.

Statement by the Governor of the Bank for Nepal

Ram S. Mahat

It is a great pleasure and privilege for me to address the Joint Annual Meetings of the World Bank and the International Monetary Fund. I welcome the new President of the Bank, Mr. James Wolfensohn, to the Bretton Woods institutions. I am confident that his leadership and rich experience will significantly contribute in economic development, particularly in the poorer countries. Allow us to express our deep sorrow for the passing away of the former President of the Bank, Mr. Lewis T. Preston. I am sure that his contribution to the World Bank Group and its member countries will be recognized for a long time.

Let me also join other speakers to welcome Brunei Darussalam to the Bretton Woods institutions; we look forward to an effective partnership with the new member.

We note that the global economy has continued to improve this year. This trend is expected to enhance the scope for trade expansion and to improve the conditions for larger net resource flows to developing countries. However, a deeper financial problem in Japan and the fiscal situation in the United States are still signs of concern. It has now been obvious that the sustenance of the global economic recovery is crucial for the continued success of the reform process in developing countries. We, therefore, urge all major industrial country governments to strengthen their macroeconomic policies and step up monitoring as well as follow-up actions in order to achieve greater global interdependence in economic relationships.

Although the process of privatization is picking up, the need for official development assistance is still great, particularly in the poorest countries, for investment in infrastructure and human resources development, and to help create the institutions and policies supporting economic growth. These investments, no doubt, are essential to create an enabling environment for private sector growth.

Furthermore, as poverty alleviation has been the overriding objective of the poorer countries, they have put enormous efforts in creating opportunities for the poor to earn and enhance their capacity to work. Both these tasks require huge amounts of resources. Many of these countries have made great efforts in raising internal resources. Nevertheless, the internal resource availability is inadequate to their requirements. Moreover, as these countries have yet to establish their creditworthiness, foreign grants and concessional assistance are the only realistic means of support for these countries.

We feel that International Development Association (IDA) resources should be devoted solely to the poorest and least developed countries, whose institutional and technical capacity is weak and which lack easy access to international capital markets. It should particularly take care of the priority development issues which cannot be addressed by the private sector. The most important task is to make development assistance more efficient and effective. Its allocation should be made in such a way that priority needs of recipient countries are met. We commend the Bank for its endeavor to respond to challenges posed by widespread poverty in developing countries. We broadly agree with the Bank's initiative to attack poverty, which has been identified as the major issue confronting mankind.

We express deep concern over the likely shortfall in IDA-10 funding due to the contribution below the level of the committed figure by the United States. We also urge greater efforts by all donors in the IDA-11 Replenishment and to make timely decisions to ensure commitment in the IDA replenishment.

Nepal has been utilizing various concessional facilities provided by the Fund. The Fund's enhanced structural adjustment facility (ESAF) played a crucial role to the adjustment process in Nepal. We would, therefore, like to continue with the ESAF arrangement.

We would also like to take this opportunity to urge the donor community to live up to the expectations of the world in attaining the goal set by the Social summit in substantially reducing poverty.

Now I would like to briefly state the economic situation of Nepal and outline the Government's programs and policies for economic reform. Important economic gains achieved during previous years have been eroded due to undisciplined and irresponsible economic policies in the last nine months because of political changes. The process of economic development lost momentum. Scarce public resources were spent recklessly, motivated solely by political purpose. Fiscal and foreign trade imbalances widened as a result of increased expenditure against sluggish internal revenue generation and high imports against a massive fall in exports. The export sector, which was growing steadily during the same period, registered a net decline in 1994/95. Business confidence weakened, and the unprecedented growth in private investment witnessed since 1991 came to a halt. The exchange rate, which remained firmly stable for more than three years, started depreciating.

The primary objective of the new Government, which took power last month, is therefore to correct these problems and work to raise the living standard of the poor and deprived people. We are already committed to launching rural development, with a strengthened implementation modality and appropriate control mechanism. We consider that it is essential to promote self-reliance, self-governance, and self-development in each and every corner of the nation. We recognize that the establishment of a liberal-oriented economy firmly stands as the need of the hour. Therefore, we will accelerate the process of market reforms and privatization of public enterprises. Nepal has achieved satisfactory progress in the mobilization of internal revenue in recent years. The introduction of a value-added tax system is next on our reform agenda. Strict controls on spending will be exercised. We are also committed to provide a much needed boost to exports and their diversification. Emphasis on social sector development and infrastructure building, containing inflation and deficit financing, and promoting transparency and simplicity in expenditure management, reforms in trade, industry, foreign investment, tariffs, finance, and the banking and public sectors will all be included in our reform agenda. Due attention will be paid to building human capital by providing training and skills to reap the benefits of development. Similarly, the technical and institutional capacity will be upgraded in order to prepare and implement complex and sweeping economic reforms over a broad front.

The strategy that we are pursuing aims to achieve a strong private sector led expansion in agriculture, manufacturing, and tourism, supported by improved efficiency, management, and use of public resources and development of hydropower, rural infrastructure, as well as the social sector.

These initiatives will entail an enormous task of restructuring the economy encompassing a host of austerity measures, prioritization and allocation of government expenditures, and strengthening of management and administration. Such steps are a must in order to put the economy toward a sustainable growth path.

Nepal's long-term economic development depends largely on how quickly we can utilize our hydro potential for the country's benefit. The Arun III Hydropower Project, which had undergone rigorous scrutiny and appraisals in the last ten years, has now been unilaterally canceled by the World Bank management when the project was at the final stage of the Board of Directors' approval. It has given a big setback to our development efforts. Substantial financial resources and efforts were already put in the preparation of the project. Implementation of the Arun III Hydropower Project would have paid a high social profit for investment in priority areas and would have provided a dependable power supply which is urgently required for private sector growth in Nepal. Its cancellation has now created business uncertainty. I therefore take this opportunity to request the Bank to reconsider the decision on the Arun III Hydropower Project.

Finally, the Bretton Woods institutions have served us well. We consider that the technical and financial cooperation extended by these institutions has been vital to our economic development, and we believe that they have a parallel role in our future prosperity. Therefore, I express our sincere appreciation to the International Monetary Fund and the World Bank for valuable cooperation in our development efforts and look forward to a strengthened development partnership with them in the days to come.

STATEMENT BY THE GOVERNOR OF THE BANK FOR GREECE

Yannos Papantoniou

Overall, the world economic situation appears to be satisfactory. Growth expectations in industrial countries remain relatively high, notwithstanding their downward revision to more sustainable, noninflationary levels. Developing economies continue to experience robust growth, aided by international trade, structural reform, and adjustment efforts. On the other hand, the transition economies, after six years of declining output, are now expected to achieve positive growth, although macroeconomic and financial stability have yet to be firmly established in some of them.

A balanced macroeconomic policy mix and continued efforts aimed at structural reform are the pillars on which sound economic policy rests. Budgetary consolidation should remain a high priority in most countries as a means of increasing national savings and reducing real interest rates. Monetary policy should focus on disinflation, as well as financial and exchange rate stability. Such a policy mix is conducive to private investment and export growth, and strengthens the prospects for sustainable expansion in the medium term.

Sound macroeconomic policies will not, however, automatically lead to good economic performance and improved standards of living if our economies maintain structural rigidities. Efforts to reduce unemployment, which remains high despite good growth conditions, should be intensified. However, this process should be accompanied by improving social and environmental standards in the developing world, while, at the same time, preserving the multilateral character of international trade relations. In financial markets, increasing integration and globalization may require a strengthening of market oversight activities, in order to spread the essential benefits of free capital movements to wider segments of our societies. Finally, raising the efficiency of public administration, tax systems, and public corporations remains a goal to be vigorously pursued worldwide.

Turning briefly to Greece, the economy is in its second year of recovery, with growth projected to reach 2 percent in 1995, led primarily by public and private investment. Inflation has been substantially reduced—to 8.4 percent in September 1995 from 10.8 percent in December 1994—and is expected to decelerate further and fall to about 5 percent by the end of 1996. In fact, year-on-year inflation returned to a single-digit figure last April, after 22 years. The general government deficit-to-GDP ratio will be less than 9 percent in 1995, down from 11.4 percent in 1994—well within the limits set by our Convergence Program. For the second consecutive year, the Greek economy has performed quite well and enjoyed the benefits of increased credibility resulting from the policies pursued.

This overall improvement in economic performance was made possible with the application of appropriate incomes, fiscal, monetary, and exchange rate policies, as well as the prevailing social climate. Incomes policy provided relatively limited nominal pay increases in the public sector, while allowing for some real income increases linked to productivity growth. Strict fiscal policy, in line with our Convergence Program, is being implemented with success. The reduction of the central government's budget deficit is primarily the result of increased tax revenue from the application of the new presumptive taxation system on nonwage personal incomes, and the containment of current expenditure growth while allowing investment expenditure to rise substantially in real terms. Monetary and exchange rate policies are aimed at reinforcing the disinflation process. In fact, they have created an interest rate differential in favor of Greek assets, resulting in large capital inflows. Nevertheless, nominal interest rates have been substantially reduced, while the observed decline in real interest rates reflects credibility gains of the Government's economic policies.

Structural and development policies aimed at enhancing the supply potential of the economy are also being implemented. These include, among others:

- an extensive public investment program, cofinanced by the European Union, for the modernization of physical infrastructure and human capital development;
- a multifaceted program to improve tax administration;
- a program for enhancing labor mobility through vocational training, regional job centers, retraining the long-term unemployed, and subsidized hiring, especially in areas suffering from deindustrialization or high youth unemployment;
- financial market reform, including dematerialization of government paper and reorganization of the stock market and the securities regulatory framework;
- a privatization program through limited stock flotation of the Hellenic Telecommunications Organization and the Public Petroleum Corporation, selling or liquidating certain firms belonging to state-

controlled banks and the Industrial Reconstruction Organization, and restructuring of certain state banks for eventual privatization; and

- finally, a program of large infrastructural projects is under way, including the new Athens airport, highway networks, and the introduction of natural gas.

Greece is keenly interested in developing strong economic links with the Balkan and other Central and Eastern European countries, as well as the Commonwealth of Independent States (CIS) countries. To this end, export credits and technical assistance have been granted by Greece to some of these countries. Greece also encourages joint entrepreneurial ventures and supports the business activities of Greek firms in the region.

In closing, I want to reiterate the commitment of the Greek Government to the pursuit of sound economic and financial policies with a view to creating the conditions for high sustainable growth and promoting the welfare of our people.

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

Dato' Seri Anwar bin Ibrahim

Mr. Chairman, the Malaysian delegation would like to join our other colleagues in congratulating you on your chairmanship of this Joint Annual Meeting of the World Bank and the International Monetary Fund. We would also like to welcome and congratulate Mr. James Wolfensohn on his appointment as the new President of the World Bank.

We welcome the improved prospects for world economic growth and global economic integration. The growth in trade is now significantly faster than output in almost all regions of the world, bringing about substantial and widespread benefits in terms of increased opportunities for specialization, greater incentives to invest, and more rapid technological transfer. The outlook for most countries points to continued growth, with the industrial countries showing a sustainable growth momentum. For the developing countries, the outlook continues to be favorable. Growth in South Asia is expected to remain favorable, while East Asia and Latin America are expected to record strong but slower growth. Against this favorable environment of economic growth and increasing globalization and integration of markets, however, serious policy challenges still remain.

In the industrial countries, the strong expansion comes with associated risks that need to be contained, particularly the possible negative effects arising from the foreign exchange turbulence in the first six months of 1995, following the adverse financial market reaction to the poor state of public finances in several countries bringing about higher interest rates, and possibly more restrained consumer spending.

Given these risks, it is important that the gains made in lowering inflation be preserved, while the difficult but necessary task to reduce high public deficits needs to be vigorously pursued, given increases in fiscal burdens associated with increasing social demands. With private savings low or declining in many developed countries, efforts need to be intensified to ensure that this does not become an impediment to the growth momentum.

Among the developing countries, the strong growth performance in recent years continues to mask considerable diversity. We are concerned that many countries continue to experience weak growth and poor or even declining standards of living. Although favorable commodity prices have improved the prospects of some countries in sub-Saharan Africa, several countries remain vulnerable to adverse external conditions. Of course, divergence in economic prospects reflects varying commitment to stabilization programs, difficult political conditions, and poor governance.

For some countries like ours in South and East Asia and in some Latin American countries, economic performance remains robust. In order to sustain stable growth, fiscal consolidation and monetary restraint have been pursued to reduce the risk of overheating as well as to moderate capital flow volatility. There is also a need among developing countries where the capital and financial markets remain quite robust to be vigilant to safeguard domestic financial stability. Macroeconomic management also needs to take into account the destabilizing implications of such flows for the domestic economy in terms of higher consumption expenditure, thereby contributing to price pressures.

Over the past few years, there have been unprecedented surges of private capital flows into developing countries leading to excessive liquidity expansion and upward pressures on real exchange rates. These flows have, however, been concentrated in a few selected developing countries and their sustainability is questionable and worrisome. The risk of sudden reversal looms large as investment decisions react to perceived or real dangers to domestic or external stability. Financial discipline therefore needs to be strengthened. We therefore support the initiative of the IMF to play a more active role in surveillance and in developing a mechanism to assist such countries to cope with these situations. These institutions must also seek to improve the access for those countries that have not been able to attract private capital flows, especially low-income countries undergoing structural adjustments.

The volatility and uncertainty of private capital flows underscore the importance of development assistance, which is vital to many poor developing countries. Official development assistance (ODA) provides resources based on long-term considerations as well as a transfer of technology and technical assistance that are essential to the development of these countries. We consider it a matter of grave concern that real ODA has declined for the fourth consecutive year. The growing pressure to reduce official development assistance among major donor governments at a time of more promising situations in many least developed countries is very disturbing. There is now increasing uncertainty over the fulfillment of IDA-10 commitments. In particular, the shortfall of the U.S. Government commitment in IDA-10 is regretted. The prospect of a larger size IDA-11 is clouded with pessimism. Greater commitment by all donors in the IDA-11 Replenishment will therefore be crucial. Major countries should uphold their stated commitments to provide the resources required by the developing countries in South Asia to overcome economic distress and to pursue structural adjustments now under way. Otherwise, the poorer countries will be pushed further into poverty.

In the past few years, there has been a trend towards greater liberalization of markets by some developing countries in order to enhance efficiency and competitiveness. This trend is expected to strengthen efforts of these economies to integrate into the world's financial, trading, and capital markets. However, these efforts are sometimes impeded by protectionist and unfair measures by developed countries. We believe that a stronger commitment to an open multilateral rules-based trading system would prevent a slippage into inward-looking policies, especially in those economies whose liberalization efforts are still at a fragile stage. Multilateralism and open regionalism should be pursued to capitalize on the achievements of the Uruguay Round. However, we must always be prepared that serious situations like the Mexican crisis can occur at any time.

We are reassured that the Bank has once again re-emphasized its central theme of poverty reduction with the focus discussions on the implications of the social summit for the Bank at the Development Committee. We welcome the establishment of the Consultative Group to Assist the Poorest (CGAP) with the establishment of microfinance institutions. We hope that this program, to which the Bank will make cash contributions, will be truly effective and open up new opportunities for the poor.

The Bank has increasingly recognized the critical role of the private sector in development. The closer coordination and information sharing between the Bank and the International Finance Corporation (IFC) are most welcome. Current initiatives to develop two new instruments, IDA guarantees and IDA private investment, are definitely a move in the right direction towards the expanded role of private sector financing of privatized sectors in its member countries, especially in infrastructure, utilities, and urban development.

The decision to expand the single currency loan program is a reflection of the Bank's increasing emphasis on client orientation. However, we would like to call on the Bank to liberalize access to the program. The current program, which limits access to single currency loan terms for each country to only half of the planned annual program or $100 million, whichever is greater, is too restrictive and unnecessary.

We would also like to lend support to the continuous efforts of the Bank to reduce its administrative budget by 8 percent in real terms for fiscal year 1996 and fiscal year 1997. We understand that innovation and streamlining procedures will be encouraged and that there will not be across-the-board cuts. However, we would like to caution that staff reductions be carefully carried out so as not to affect the general morale of the staff. A flexible approach, taking into consideration the demand for and supply of skills and competence, staffing levels, and regional balance is required.

We are very concerned over the fragility of the banking system in a number of countries. We fear that the failure of some banks could have contagious effects on the international banking system, which could undermine the stability of the international financial system. Therefore, supervisory authorities must take appropriate measures to strengthen the institutions under their regulation to help restore confidence and avoid broader financial instability.

In light of this, we feel reassured that there are a number of proposals to enhance the future role of the Fund to maintain stability in the international monetary system. The decisive move by the Fund in handling the recent Mexican crisis has been encouraging indeed, thereby limiting the contagion effects on other countries. Nonetheless, there is an urgent need to put in place early warning systems to detect impending dangers. We therefore welcome the ongoing work in the Fund to strengthen its surveillance over member countries, including establishing standards for the provision and publication of data by member countries. However, we would like to emphasize that there should not be any differentiation between surveillance over borrowing and nonborrowing countries. All countries must be treated alike and relevant data made transparent to the international economic community.

History has shown that no matter how cautious we are, crises can still occur. To deal with such an eventuality, we support the Fund's proposal to establish the emergency financing mechanism. In this regard, a clear guideline of what constitutes an exceptional case should be drawn up to ensure uniform and fair treatment of members facing similar circumstances.

We note that there has been a rise in the demand for Fund resources, given the growth of the world economy, the needs of the formerly centrally planned economies, as well as the response to new situations. In addressing this issue, we are aware that the Fund is currently considering a number of measures to augment its resources. Although we are supportive of the enlargement of the General Arrangements to Borrow, we are of the view that an increase in quotas under the Eleventh General Review of Quotas should also be accorded utmost priority. Given that growth in the world economy has far outpaced growth in the size of the Fund, an increase in quotas is imperative, not only to enable the Fund to adequately meet the financing needs of the membership, particularly the low-income developing countries, but also to enhance its capacity to deal effectively with systemic financial crises.

Furthermore, the Fund has yet to make progress on the issue of an SDR allocation, particularly in dealing with the issue of equity and distribution. Our view remains that a general allocation of SDRs should be part of any agreement on the matter. In addition to the general allocation, a post-allocation redistribution scheme could be adopted to address the special liquidity problems of some of the member countries.

To conclude, I would like to touch on one other issue, that is, the funds for multilateral debt reduction. We support these efforts, although we understand that there may not be a single all-embracing approach. Nonetheless, one can certainly devise country-specific approaches to ensure debt sustainability. We would welcome proposals on this issue at the earliest possible time.

Statement by the Governor of the Fund for New Zealand

W.F. Birch

May I express my Government's and my own personal condolences on the passing of Mr. Preston, who led the World Bank community through a difficult period. I welcome President Wolfensohn and look forward to a long and productive relationship with him.

At last year's Meetings, I outlined New Zealand's reform experiences over the past decade. Today, I would like to elaborate on the lessons we have learned.

New Zealand's economic indicators continue to be very favorable. The economy is well into its fourth year of growth. Over the past few years, production-based GDP has grown by 5 to 6 percent. All sectors except the government sector have grown strongly, and growth is expected to continue at 3 to 4 percent over the three-year forecast period.

Although the underlying inflation rate rose to 2.2 percent in June—slightly above the 0–2 percent target band—the rate is projected to re-enter the target band later this year and to remain comfortably within it for the forecast period.

New Zealand has one of the lowest unemployment rates in the Organization for Economic Cooperation and Development (OECD). Seasonally adjusted unemployment stands at 6.3 percent of the labor force, down from a peak of about 11 percent four years ago. Labor market reforms, introduced in 1991, have contributed strongly to bringing unemployment down.

The recent deterioration in the current account to around 3 percent of GDP has resulted largely from increased imports due to strong investment and consumption growth. The current account is expected to improve in the second half of 1995.

A feature of New Zealand's economic performance has been progress in consolidating the fiscal position. The Government's operating balance for 1994/95 was a surplus of 3.1 percent of GDP, and this is expected to increase to 7.7 percent of GDP in 1997/98. Tax revenue is forecast to grow strongly, government spending is expected to remain relatively stable, and net public debt is projected to decline rapidly.

A broad range of approaches have been used to achieve this consolidation, including:

- implementation of a broad base/low rate tax system;
- adoption of user-pays principles in many areas;
- expenditure reductions through better-targeted benefits and efficiency gains in core government departments;
- commercialization and sale of peripheral Crown activities; and
- concentration on debt repayment.

Fiscal consolidation is already reaping rewards. There have been several credit rating upgrades since 1990. The cost of capital in New Zealand has been falling, with the real differential between New Zealand and Group of Three long-term interest rates falling from over 5 percent in 1989 to under 2 percent this year.

The Government is now preparing for significant tax reductions. These will still allow for ongoing debt reduction and extra investment in social priorities such as health and education.

The Reserve Bank Act established price stability as New Zealand's primary monetary policy objective. Price stability means inflation should be low on average and not vary too much over time. The current agreement between the Reserve Bank and the Minister of Finance defines price stability as maintaining inflation within a 0–2 percent band.

Our new Fiscal Responsibility Act aims to improve fiscal policy by encouraging responsible fiscal management. The Act requires governments to:

- follow a legislated set of principles of responsible fiscal management;
- publish a budget policy statement well before the annual budget, containing strategic priorities for the upcoming budget as well as short-term fiscal intentions and long-term fiscal objectives;

- fully disclose the impact of fiscal decisions over a three-year forecasting period in regular economic and fiscal updates, and present projections of fiscal trends over at least a ten-year period; and
- present all financial information in a manner consistent with private sector accounting rules.

These reforms also introduced accrual accounting to government. This has played an important part in cementing the reform gains. The Parliament and public of New Zealand now have more financial information about the Government's position than shareholders of most publicly listed companies.

The financial management and accountability framework provides incentives for public sector managers to improve their own performance, making them more accountable for their actions and outputs.

These important legislative changes have been accompanied by equally significant microeconomic reforms over the past ten years like trade liberalization, labor market reforms, and deregulation. These reforms were essential to remove the regulations and interventionist policies which inhibited economic performance and living standards.

The changes have underpinned the improvement in New Zealand's international competitiveness, from eighteenth in the OECD in 1991 to sixth now, as measured by the World Competitiveness Report. The New Zealand public is now reaping the benefits of strong growth spurred by the reforms.

The next Parliament will be elected under a new mixed-member proportional electoral system. In spite of this change, it is encouraging to note that the essential elements of the reform agenda are likely to remain intact. But more needs to be done to continue improving our long-term growth potential.

Reviewing the Government's direct and indirect involvement in the economy has been an important part of improving our performance. Some former government-owned enterprises have been converted into companies. Some of these have been sold, while others have been retained and run as commercial operations. Remaining government departments are required to operate in a businesslike manner using accrual-based financial management.

Last year, I said the Bretton Woods institutions needed to avoid duplication, and I would reiterate that again today. It is important the institutions identify key objectives and focus on their core business. There is a worldwide trend toward increasing the efficiency and effectiveness of public bodies, and the Bretton Woods institutions should follow this trend.

Where appropriate, authority should be devolved and resultant autonomy should be accompanied by greater accountability for performance. There should be greater flexibility over management of inputs, provided there is credible accountability for outputs, and there should be a more flexible and market-responsive system of labor contracting.

New Zealand believes the Bretton Woods institutions have a valuable role in helping poorer countries. As New Zealand reaps reform benefits, we have raised our relative overseas development assistance contribution.

Funding of IDA now represents about 7.5 percent of New Zealand's total ODA budget and is our largest multilateral contribution. We are concerned that outstanding IDA-10 obligations are met and satisfactory progress is made in IDA-11 negotiations. I was encouraged this morning to hear President Clinton talk of the commitment of his administration to meeting their IDA-10 obligations and in contributing fully to IDA-11.

New Zealand strongly supports the global trend towards more open and integrated national economies. As governments press ahead with these reforms, we must also ensure the Bretton Woods institutions are clearly focused and cost effective.

STATEMENT BY THE GOVERNOR OF THE BANK FOR BANGLADESH

M. Saifur Rahman

It is indeed a great pleasure for me and my delegation to be here at the 1995 Annual Meetings of the Boards of Governors of the World Bank and the International Monetary Fund. I take this opportunity to extend to you, Mr. Chairman, my warm felicitations on your election as the Chairman of this august body. I join the other Governors in welcoming the new member of the Bank and the Fund. Let me also extend a most hearty welcome to our new President, Mr. James D. Wolfensohn. I am confident that he will give more focus to the Bank's mission in a rapidly changing world and steer the Bank to successfully meeting what he himself termed "the historic opportunity to help advance the human condition."

I stand here today with a deep sense of loss at the sudden demise of our dear friend Lewis Preston. President Preston headed the World Bank at a time of tumultuous changes in the international arena. He steered the Bank admirably to respond effectively to the new challenges of poverty reduction and human resource development, including the advancement of women. As Chairman of the Forty-Ninth Anniversary Meeting of the Boards of Governors of the Bank and the Fund in Madrid, I had the great pleasure and honor of working closely with him. The memory of President Preston sitting next to me sharing views and ideas of a poverty-free world is still fresh in my mind. His dedication to the Bank's mission was most inspiring. May he find eternal peace.

In 1994, the world economy made good progress. A number of developing countries continued to show strong growth. However, growth was weak and the standard of living stagnated in the poorer countries. These countries require stronger international support to put them on a sustainable growth path. The poorer countries must also be allowed to benefit fully from the Uruguay Round agreements. The threat of new trade barriers in the name of environmental, social, and employment considerations is a matter of concern to us. We are also concerned at the threat posed by the debt problems of low-income developing countries. The lack of progress in fiscal consolidation, particularly deficit reduction, and structural reform in the industrial countries are causing real interest rates to be high and add to the volatility of exchange rate movements. This poses a serious threat to capital flows to the developing countries, which are on the decline. It is, therefore, important that the major industrial countries achieve macroeconomic convergence. I urge an enhanced surveillance role of the IMF in this area.

I would now like to turn to the situation in my country. We have made very good progress in a short time. Since 1991, we have stabilized an economy that was very much out of balance. We now have very low inflation. The current account and fiscal deficits have been reduced significantly. Exports are showing strong growth. Foreign exchange reserves have increased more than sixfold in less than four years. The private sector has started to respond to the broad spectrum of reform measures implemented by the Government, as demonstrated by a brisk rise in demand for bank credit for new investment. Also, foreign portfolio investment is on the rise, and market capitalization of the Dhaka Stock Exchange has increased threefold in the last two years.

This success in macroeconomic management, which has earned wide acclaim, provided a strong base to launch an attack on poverty. Reduction of hard-core poverty is the most important element of our socioeconomic agenda. We have adopted a holistic approach embracing economic, social, and environmental elements to ensure participatory and sustainable development. We are preparing a 15-year perspective plan based on a participatory approach with inputs of the "clientele," the common people, as the critical building block of ownership of the plan. This is a sharp break from the traditional central planning exercise. The public investment program has been reprioritized to give maximum focus on social sector and human resource development. Budgetary outlays are being supplemented by microcredit operations by Grameen Bank and other innovative and enterprising nongovernmental organizations (NGOs) in Bangladesh funded to a great extent out of the Government's exchequer. We recognize the critical importance of gender equality. Programs have been initiated to empower women and to bring them into the mainstream of socioeconomic life. Innovative programs like food for education and a female scholarship program have been launched in the areas of primary education and nutritional development. In the last three years, the coverage of the female scholarship program has increased to 2.3 million women. It is expected to reach 3 million next year. The food for education program has raised primary school enrollment to 90 percent. Government organizations and NGOs are acting in concert, whenever feasible, to achieve our socioeconomic goals. We have attained good progress in terms of social indicators such as access to safe drinking water, sanitation, nutritional intake, life expectancy, adult literacy, and school enrollment. Our success in reducing the population growth rate has been widely acclaimed.

With successful implementation of stabilization and adjustment measures, Bangladesh and many developing countries have reached the threshold of breaking out of the poverty trap and are poised for higher economic growth. In the past, the multilateral institutions have played a central role in supporting these countries, particularly through concessional lending to the low-income countries. The low-income developing countries, with their inadequate infrastructure, have not been able to attract adequate foreign direct investment. For these countries, official development assistance (ODA) remains a major source of external finance. The decline in the flow of ODA as a percentage of the industrial countries' GDP, as well as in real terms, is, therefore, disappointing. A continuing negative net transfer of resources by the World Bank Group is a matter of greater concern.

We are concerned at the uncertainty over the Eleventh Replenishment of the International Development Association (IDA). Any delay in adequate replenishment of IDA-11 resources would seriously hurt the world's poorest and would also jeopardize the World Bank's main objectives. It is in this context that the Prime Minister of Bangladesh appealed to the heads of government of the Group of Seven countries urging them to contribute generously towards the IDA-11 Replenishment to meet the growing demand for a concessional credit facility for the poorest countries.

The Fiftieth Anniversary of the Bretton Woods institutions and the Annual Meetings of the World Bank and the IMF in Madrid last year enjoined these institutions to respond to the challenges posed by changes in the global environment. One year after the anniversary, we now have the opportunity to review how these institutions have responded to these challenges. In this context, I soundly applaud the initiatives taken by the Bank in several directions. The creation of the microcredit fund to help the poorest and the formation of the Consultative Group to Assist the Poorest (CGAP) are indeed commendable. However, I must point out that the emphasis on human resource and physical infrastructure development should be continued to make these new initiatives meaningful for the poor. I also commend the World Bank Group for organizing the country and thematic seminars prior to these meetings focusing on private-sector development, investment potential of selected developing member countries, and global development issues. I also hope that the reported initiatives for the debt-management fund will come to a satisfactory conclusion.

We hope that the affiliates of the World Bank Group would also come up with similar initiatives. IFC, for example, has yet to respond adequately to the needs of the poorest. Greater attention needs to be given to a catalytic role. We would expect IFC to redirect its policies to develop innovative strategies and specialized vehicles to promote investment, even in countries where the investment climate is somewhat challenging.

In conclusion, I would like to refer to the statement made by Mr. Wolfensohn at the inaugural session yesterday morning where he said that "we must continue to act—so that poverty will be alleviated, our environment protected, social justice extended, human rights strengthened, and women's rights advanced—all in the cause of a more just and peaceful world." We agree with his assessment that development today is at a critical juncture despite tremendous gains over the past generation. We also commend his appeal for a "stronger partnership" and urge that the concept be expanded among nations, and between nations and development institutions. Already a global vision has emerged for a basis for such partnership. The world summits on children, environment, population, social development, human rights, and women have given us a global vision for our planet. This is a vision of a prosperous, equitable, safe, and peaceful world that we all share. Poverty, hunger, malnutrition, and deprivation have no place in such a vision, because poverty anywhere is a threat to prosperity everywhere. Let us join our hands together and pool all our available resources to realize this vision. Let not posterity blame us for lack of will to realize this vision.

Statement by the Governor of the Bank for Belgium

Philippe Maystadt

These Annual Meetings are an ideal forum for exchanging views on our economic and financial situations, for making the international community more aware of our individual aspirations and problems, and for coming together to discuss the current status of our cooperation, and ways to improve and deepen it, primarily within the framework of the Bretton Woods institutions.

Belgium in the Economic and Monetary Union

It is predominantly at the national level that measures should be implemented to permit sustainable growth that would redound to the benefit of all our peoples. For my country, Europe's aim to adopt a single currency by 1999 has largely charted the course of adjustment we must follow. Belgium is firmly committed to the economic and monetary union. The Government has just approved a budget for 1996 that will bring down the fiscal deficit to 3 percent of GDP. In the coming months, it will also embark on the modernization of its social security system, so that it can continue to provide full protection against life's insecurities and meet the increased charges resulting from an aging population in the next century. In particular, the methods of calculating future pensions will be gradually adjusted to keep long-term growth of pension expenditures within sustainable limits, while guaranteeing a decent retirement for everyone.

Though compliance with the convergence criteria of the Maastricht Treaty may be key to the success of the monetary union, it is hardly a sufficient condition for successfully combatting the serious problem of unemployment. To face this challenge, and because employment promotion is its absolute priority, the Belgian Government has just adopted a multi-year employment program. As we see it, providing access to jobs for a larger number of people is the best way of ensuring social integration.

International Monetary Fund–International Labor Organization Dialogue

On this subject, I am happy that the dialogue between the Finance Ministers in the Interim Committee and Mr. Michel Hansenne, Director-General of the International Labor Organization, was fruitful and constructive. Of course, my suggestion that the Interim Committee meet with Mr. Hansenne to explore the means of broader and more continued cooperation between the IMF and the ILO was based on the fact that the statutes of both the IMF and the ILO make the objective of full employment a priority. In particular, the agreement was that this cooperation should be aimed at helping IMF missions in the member countries to better understand their labor markets and social protection problems and also at enabling ILO staff to better factor the IMF's macroeconomic policy expertise into its recommendations. This new partnership, and the fact that the Fund gives greater consideration to the social implications of the economic reforms it prescribes, should better tailor adjustment programs and so make them more acceptable to the populations they affect.

Strengthening of the IMF

Let me now turn to the Fund's role in the international financial system. Last year in Madrid, at the Fiftieth Anniversary of the Bretton Woods institutions, the international community applauded the IMF's ability to adapt to a changing international economic and political environment. The way in which the Fund reacted to the financial crisis in Mexico at the beginning of the year, by quickly providing that country with exceptional financing, but also by quickly learning from that crisis, is once again evidence of the IMF's capacity to react to changes in the world economy.

We learned three lessons from the Mexican crisis for furtherance of the IMF's objectives. The first lesson concerns the Fund's surveillance mission. The globalization of the international financial system and the increasing liberalization of capital movements calls for closer surveillance of all member countries, to enable the IMF to detect any emerging tensions early. The recent studies of the Fund's Executive Board identified the improvements member countries needed to make in reporting their economic and financial data to the Fund, and I am happy that the Interim Committee has confirmed the findings of these studies. Substantial progress has also been made with regard to the establishment of standards to guide member countries in disseminating their economic and financial data to the public, and I am pleased to note that most member countries consider that the setting of such standards by the IMF is consistent with its objectives and mission, as set forth in the Articles of Agreement.

Second, though priority should indeed be given to crisis prevention—primarily through stricter discipline in member countries and closer surveillance by the IMF—we know that this will not always suffice. A pre-emergency regime is therefore envisaged to enable action to be taken promptly in the event of serious financial crises.

The third lesson of the Mexican crisis involves the Fund's financial resources. Discussions are now under way on a new parallel financing facility to supplement the General Arrangements to Borrow (GAB), in order to double the resources currently available under those Arrangements. However, the new facility must be considered solely a safety net for exceptional circumstances and is not tantamount to a new increase in the normal resources of the Fund. The discussions on the increase of quotas must therefore be accorded priority. As the liquidity position of the IMF is likely to deteriorate markedly in the years ahead, it appears critical to me that, if the Fund's activities are to continue normally beyond 1998, an agreement must be reached on a substantial increase in quotas by the end of next year at the latest, given the necessary timeframe for approval by our national legislatures.

Priorities for the Poorest Countries

The global economy is rapidly moving toward integration, but it is still shaped by greater inequalities among countries and groups of countries. Ever-increasing numbers of countries are gaining access to international capital markets and playing larger roles in the world economy. However, too many countries are still experiencing what the Chairman termed yesterday "misère odieuse," or abject poverty, and are not sufficiently reaping the benefits of globalization of the economy. This latter group of countries must receive our priority attention.

The solidarity shown by the international community toward Mexico by granting that country unprecedented financial assistance and the vigor with which the Fund rallied and adapted to meet the challenges brought out by the Mexican crisis, that solidarity and vigor must also be tapped for the poorest countries. In this connection, I regret that monetary and financial turmoil is more fearful to the wealthy nations and international institutions than the misery of 1.3 billion human beings who have to live on less than one dollar a day. Like Messrs. Camdessus and Wolfensohn, I deeply believe that the persistence of pockets of extreme poverty cannot but engender an increasingly unstable world. Let us not be as nearsighted as markets can be, but rather clear-sighted and clearheaded.

The strategy we need to meet the challenge of poverty must be based on a new partnership among the three vital players: the governments of the poorest countries, the donor community, and the international financial institutions, particularly the Bank and the Fund. This new partnership involves mutual commitments: First of all, the governments of the poorest countries must guarantee macroeconomic stability at home. Experience shows amply that a government's inability to balance the budget and contain expansion of the money supply undermines development prospects. Moreover, it is clear that greater political stability and better management of public services also help create the conditions for sustainable development.

Macroeconomic stabilization and rehabilitation efforts in the poorest countries must be able to count on adequate financing from the donor community. I am concerned that, first of all, official development assistance from Organization for Economic Cooperation and Development (OECD) donors now accounts for less than 0.3 percent of their GDP, second, that IDA-10 may be radically truncated and, third, that the prospects for mobilizing the funds needed for the enhanced structural adjustment facility (ESAF) appear dim. Unless this trend is reversed, the investment rate in the poorest countries will no longer sustain their long-term growth, and the Bretton Woods institutions will no longer be able to play their proper role in development. Let us not forget that neither the poorest countries nor the Bretton Woods institutions can allow themselves to become the victims of the unwillingness or blindness of the wealthy nations, and especially the wealthiest among them.

This brings me lastly to the new commitments that the Bank and the Fund must make in order to serve the poorest countries better. The two institutions must ensure the systematic evaluation of the adjustment programs they recommend. They must develop their capacity for self-review and strive to continue to tailor their programs to local realities, to the specific needs of each country. When there are governments that shoulder their responsibilities and implement rehabilitation and reform policies and when there are donor countries that, I hope, will increase their financial commitments for development despite their budgetary difficulties, the Bank and Fund must continue to verify the effectiveness of the policies and reforms that they recommend. Greater responsibility on the part of the governments of the poorest countries, greater solidarity on the part of the wealthy countries, and greater effectiveness of the Bank and the Fund are the linchpins of this new partnership that alone will enable us to meet the challenge of poverty.

Statement by the Governor of the Bank for Lebanon

Fuad A.B. Siniora

I am pleased and honored to address you on behalf of the Arab Governors of the World Bank and the International Monetary Fund. I would like to begin by expressing my congratulations to you, Mr. President, on being chosen to preside over the Boards of Governors this year, and to Mr. Wolfensohn as he takes over the presidency of the World Bank Group. I would also like to extend a welcome to the State of Brunei Darussalam, which has recently become a member of the Bretton Woods institutions.

The past year witnessed a series of unfavorable developments in the international financial markets, beginning with a sharp rise in long-term interest rates in many industrial countries, continuing with the severe financial crisis that shook the Mexican economy, and ending with the extreme disorder that overtook currency markets during the first half of this year. These developments added to the importance of the extensive discussions on increasing the scope of international economic cooperation, which began in the context of the Fiftieth Anniversary of the Bretton Woods Conference. While we certainly appreciate the efforts made by the Bank and the Fund over the past few months to come up with proposals for increasing their effectiveness, we must stress the importance of persevering in the ceaseless effort to make these institutions better able to meet the challenges posed by the radical economic and political changes that have taken place in the world over the past few years. In view of the significant and direct effect of actions resulting in many cases from the proposals made to developing countries, we would also like to stress the importance of holding serious joint consultations with these countries and giving them the opportunity to participate in the decision-making process. In our opinion, this can be accomplished by giving both the Interim Committee and the Development Committee, in addition to the Boards of Governors of both the Bank and the Fund, a more central and effective role in international economic management.

While we appreciate the accomplishments that have been made with respect to the world economy as a whole and the many achievements of developing countries in raising the standard of living of their citizens, it is clear that much remains to be done. Despite the success of certain efforts, the gulf between the industrial and developing countries is still very wide, on the whole. The ability of developing countries to join the ranks of the industrial nations continues to appear more and more unlikely in many parts of the world. It is evident that both the responsibility and the long-term interest of those concerned with the world economic system require that this challenge be met effectively. It is only natural that the Bretton Woods institutions should play a leading role in this arena.

We believe that the best way to meet this challenge is through close cooperation and continuous support for the efforts of member nations to develop the technical skills of their citizens and improve the level of necessary social services. In short, the only way to begin bridging the existing gap between industrial and developing countries is by supporting the efforts of developing countries to invest in the development of human resources, helping them to keep pace with rapid technological advancements and thus participate in the advancement of the world's society as a whole.

Each of the Bretton Woods institutions has an important role to play in this respect, based on the responsibilities laid out in their charters. Through cooperation with member nations, the IMF can assist in ensuring the stability of the world economy, by helping to prevent local economic difficulties and providing assistance to overcome any problems that might occur as a result of foreign economic difficulties. Likewise, the World Bank Group strives to achieve its basic goal, which is to reduce poverty, assist developing countries in advancing their economic sectors, and help ensure an adequate supply of official and private resources.

The Mexican economic crisis clearly showed the importance of efforts to create sound economic policies, and being prepared to modify these policies at an early stage, in light of new developments. This concept is reflected in many of the proposals that have recently been studied by the IMF, including those related to strengthening its abilities to detect at an early stage sources of tension in the economies of its member nations and in the international monetary system in general. We support this concept, but it is important to remember that these efforts should be focused on those countries which have an important impact on economic performance in other countries. We believe that a selective procedure should be followed with respect to monitoring requirements, such as providing the IMF with reports and other information. This is entirely in keeping with the principle of reciprocity as applied to the IMF and its role in monitoring, in view of the great disparity among the economies of member countries, especially in terms of the extent to which the performance of any one country may affect the economies of other countries. On the subject of information, we must not forget the importance of noninterference in the policies of member countries with respect to the diffusion of information. No pressure of any sort should be placed on these countries, even indirectly, to comply with particular standards for the diffusion of information.

While it is true that prevention is better than cure, we cannot dispense with cures. We must remember that efforts aimed at strengthening the ability of the Fund to foresee possible financial crises do not dispense with the need to make every possible effort to raise sufficient financial resources, which enables the Fund to effectively perform its role as a source of financing. This requires, first and foremost, that the Fund ensure the sufficiency of its own resources. We are aware that the Eleventh General Review of Quotas is currently under way at the IMF. We must refrain from distributing any surplus that may be agreed upon in the context of this review, in such a way that will cause a reduction in the percentage of quotas held by developing countries out of the total number of Fund quotas. In addition to ensuring the availability of a sufficient amount of its own resources, we believe that it is important to strengthen the role of the General Arrangements to Borrow (GAB) as a backup to these resources. We welcome the efforts that have been made to increase the financial resources available through the GAB, and we hope they will meet with success in the near future. But we must also point out that strengthening the role of GAB as a backup for the Fund's own resources will require, in addition to increasing the amount of resources available, simplification of the procedures that govern the use of these resources in order to make them more manageable, along with immediate and decisive efforts to overcome the negative effects of economic crises. With respect to increasing the ability of the Fund to respond rapidly to financing requirements, I would like to mention the efforts recently made to create a mechanism for urgent financing. But we must remember that this mechanism, in its current form, is no more than a group of guidelines and procedures which, although extremely important, cannot be effectively applied in the absence of sufficient financial resources.

We support the efforts that have been made to extend facilities to promote structural reform, which allow the Fund to offer concessional loans on a continuous basis to low-income member countries. We are disturbed by the reluctance of certain industrial countries to provide sufficient financial assistance to ensure the success of these efforts, and we wish to stress the importance of international cooperation at the highest levels to address without delay the task of reducing the disparity between North and South.

The inability to reach an agreement on the reallocation of special drawing rights over the past fifteen years is only one manifestation of the weakness that characterizes the current state of international economic cooperation. Despite the fact that the great majority of member countries have supported a reallocation for several years, it has not been carried out due to the opposition of a limited number of industrial countries. It is truly regrettable that this continued failure to reach an agreement on reallocation has meant that over 20 percent of the Fund's member countries continue to be excluded from participation in the system of special drawing rights. On behalf of the Governors of the Arab World, I hereby call for putting an end to this unnatural situation. As we are in agreement that there is a need to increase the amount of international reserve funds, a general reallocation represents in our opinion—from both a logical and practical point of view—the best way to incorporate all the Fund's new member countries into the system of special drawing rights.

Despite the fact that expectations regarding the progress of the world economy over the medium term are somewhat encouraging, we must not forget that many developing countries and countries in transition still face great economic challenges and difficulties. Meeting these challenges and solving these difficulties will require, first and foremost, that the countries involved persist in their efforts at reform. The success of these efforts will depend to a large extent on the availability of outside financial assistance in sufficient quantities and under favorable conditions. Foreign support of reform efforts in the indebted countries must include fundamental programs to relieve the burden of indebtedness. In this regard, we welcome the Paris Club creditors' application of the Naples concessional terms to address the indebtedness of an increasing number of low-income developing nations. We also hope to see an expansion in the scope of activities to reduce bilateral public debt to include more countries whose indebtedness hinders them from restoring their credit status.

In addition to the availability of sufficient financing under favorable conditions, the success of development and reform efforts in developing countries also depends on increased opportunities for selling the exports of these countries in the markets of the industrial countries. In this regard, we hope that the effective application of the agreements reached within the context of the Uruguay Round will be followed by a concentrated effort to remove the nontariff barriers that block access to the markets of industrial countries and hinder the efforts of developing countries to expand and diversify their exports according to the principle of comparative advantage. Here I feel I must express the great apprehension caused us by the continued support of the industrial countries for tariff policies that discriminate against petroleum and the petroleum derivatives exported by our countries. Such policies are entirely at odds with the need for close cooperation among the petroleum producing nations and those that consume it, to ensure stability in the price of oil and guarantee the supply of sufficient quantities to meet the rising world demand for this vital commodity. Likewise, another matter that disturbs us and other developing countries involves the protective policies and other measures taken by the industrial countries, allegedly for the purpose of achieving noncommercial objectives. While we are on the subject of international trade, I would like to draw attention to the particular importance we attach to taking effective measures to prevent the imposition of excessive additional costs to be borne by developing countries that import foodstuffs, due to the increased prices of these commodities as a result of the Uruguay Round.

On behalf of the Arab Governors, I welcome the creation of the World Trade Organization (WTO) and the participation of its Director General in our Annual Meeting this year. I would like to express our hope that this strategic organization will be able to impose an appropriate system of regulations on international trade and help strengthen international cooperation in this vital field. We are confident that cooperation between WTO and the Bretton Woods institutions will prevent duplication of services and interference in carrying out their various responsibilities. We also hope that WTO will take into consideration the circumstances of the Arab countries, as developing countries, with respect to conditions for membership, and will help these countries meet the challenges resulting from the agreement to establish this organization.

Please permit me to address at present a number of issues related to the World Bank and the transfer of resources. The decline in the transfer of resources to developing countries over the past few years is cause for concern, and prospects for future developments do not indicate any improvement, especially in terms of the transfer of official assistance to low-income countries. While the overall flow of resources, both public and private, increased greatly from 1991 to 1993, there has been no significant increase in South Asia or sub-Saharan Africa, where poverty has reached an unprecedented level, or in our region, the Arab World. Last year there was a decrease in the total flow of resources due to a great reduction in public resources. Moreover, documents presented at the last meeting of the Development Committee predict another large reduction for the current year with no prospects of improvement in the transfer of public resources in coming years. In light of this, we call upon the advanced donor countries to increase their efforts to summon the political will required to ensure an increase in the flow of resources to developing countries, especially official concessional resources and resources of the International Development Association (IDA), concerning which we hope the discussions currently under way will bring positive results.

We are pleased to cite the increased number of loans and credits granted by the Bank and IDA during the past fiscal year, and we hope to see an increase in the activities of the International Finance Corporation and the Multilateral Investment Guaranty Agency to support private investment. However, we must also draw attention to the fact that the number of loans and credits issued by the Bank and IDA to the Middle East and North Africa decreased over the last fiscal year to a level less than half that of five years ago.

We support the World Bank Group's focus on the objective of alleviating poverty and promoting development that ensures preservation of the environment, and we fully support expansion of the private sector. We also applaud the Bank's great interest in human development, especially in the fields of health, basic education, and women's education, and the Bank's intention to increase significantly its financing of activities in these areas over the next three years. We support the effort to ensure comprehensive and effective participation on the part of the groups that are affected by the projects of the World Bank Group, during preparation, implementation, and supervision of the projects. While we endorse the strengthening of relationships between the Bank and nongovernmental organizations, we hope this will not lead to a nonobjective influence of these organizations on the lending policies of the Bank. We also applaud the efforts being made to enhance the role of the Development Committee and to focus its attention on issues related to the policies of the World Bank Group. In this regard, we look forward to the realization of the basic goal for which the Committee was created, that is, effective participation in the increased transfer of resources to developing countries.

I commend the progress that has been made in the areas of reform and development in an increasing number of developing countries over the past few years, drawing particular attention to the great strides that have been made by the Arab countries. I would also like to cite the high degree of economic and financial openness prevailing in many of these countries, along with the efforts being made to establish closer ties among the economies of our countries and the world economy as a whole. But I must also mention that despite the progress achieved by our countries, they continue to face—as do the other developing countries—a number of challenges, including those related to fluctuations in the world financial markets and prices of primary commodities. On this subject, we should mention that the sharp decline in the value of the dollar compared to the other leading currencies during the first half of this year, and the subsequent steep drop in the price of crude oil, will no doubt have a significant negative effect on the economic performance of many of the countries in our region, at least in the short term. In light of the challenges that we expect will continue to face these countries over the medium and long terms, we must work together to continue our reform and development efforts, in order to firmly establish the foundations of world stability and economic growth, helping our peoples realize their aspirations for progress and prosperity.

While on the subject of our region, I wish to applaud the role of the Bank and the Fund in providing technical assistance, and the financial support of the Bank to development projects in the West Bank and Gaza, along with the activities of both institutions in coordinating the assistance efforts of the donor countries and institutions. We call on both institutions to increase their assistance, to encourage the donor countries and institutions to make every possible effort to provide sufficient resources, and to simplify the procedures that govern the use of these resources, not only in the Arab countries, but for all the developing countries of the world.

In conclusion, I wish to mention that my country, Lebanon, through the efforts of its citizens, the support of its Arab brothers and sisters and its friends throughout the world, has made great strides towards achieving its ambitious goals in the areas of reconstruction, institutional development, investment in human resources, and developing the abilities of the Lebanese people to increase production and improve their standard of living. The general focus of the Government's economic policy has been and continues to be restoring confidence and stability to the Lebanese economy, which is the first step towards stimulating economic activity and creating an environment favorable to sustainable economic growth. This has, in turn, helped focus the attention of both the private sector and foreign assistance on reconstruction. In this connection, I would like to state that, despite the expectation that reconstruction efforts will place a heavy burden on the public treasury over the medium term, we are determined to achieve a significant reduction in the deficit beginning with the next fiscal year. This intention is clearly reflected in the draft budget for 1996 which was recently passed by the Council of Ministers and includes significant reform efforts, which we expect will lead to achieving a surplus in the preliminary financial balance. We believe that this focus, with its concomitant efforts at structural and organizational reform, has helped create a suitable climate for reopening the financial market after many years of inactivity, and for strengthening the confidence of non-Lebanese investors in the performance of the country's economy, thus restoring to Lebanon the unique position it once occupied on the investment map of the Arab World.

Statement by the Governor of the Bank for Pakistan

V.A. Jafarey

It is an honor for me, once again, to represent Pakistan at the Annual Meetings of the World Bank Group and the International Monetary Fund. May I take this opportunity to join other speakers in extending my country's warm felicitations to Mr. Wolfensohn on assuming the position of President of the World Bank Group and to wish him success in steering the Bank in these difficult and challenging times. Let me also today welcome Brunei Darussalam to the family of the Bretton Woods institutions.

Global economic performance has generally been good and the near-term prospects are encouraging. Output and trade are expected to grow at reasonable rates, and inflation has come down to low levels. This favorable outcome derives from the successful implementation of the cooperative strategy embodied in the Madrid Declaration and the strong contribution by developing countries. A growing number of these countries have made striking progress in pursuing their agendas of adjustment and reform, and their dynamism has contributed markedly to continued global growth in recent years. Even the transition economies have begun to experience growth after several years of stagnation and decline.

Despite this generally favorable outlook, many policy challenges remain, and the current strength of the global economy offers an opportunity for further action to deal with policy shortcomings. In the industrial nations, further efforts at fiscal consolidation so as to bolster global savings and lower interest rates, and measures to tackle the problem of high levels of structural unemployment through labor market reforms are called for. The recent episodes of turbulence in financial markets are a reminder that markets remain highly sensitive to economic imbalances, and progress in these areas would therefore help alleviate an important source of financial market instability. On the trade front, even with the new multilateral agreements in place, there is little room for complacency on trade relations. Protectionism, unilateralism, and the excessive use of antidumping actions are still with us and will require strong political will to ensure that trade frictions are resolved within the framework of trade rules overseen by the World Trade Organization (WTO).

Many speakers have touched on the globalization of financial markets. This increased openness to international trade and financial markets has been a welcome and positive feature and has contributed to the growth and welfare of countries and their partners in trade. However, it has also made countries more vulnerable to sudden shifts in market sentiment, be they favorable or adverse, arising from changing perceptions in world capital markets and in investor sentiment towards emerging markets. The potential volatility of capital in a globalized world economy carries important implications both for economic policies in all countries and for the IMF as the central institution of the international monetary system.

In this regard, we welcome steps that have been taken recently to make surveillance more effective through the two-tier requirement for regular and timely data on key economic indicators, to foster a closer and more continuous policy dialogue which is better focused on countries of systemic importance, as well as on international financial flows and their sustainability. The Fund must stand ready to help countries improve their economic policies so that currency misalignments and balance of payments crises are less likely to occur; equally important, it must have the financial resources for corrective policy action when there are crises. In both these spheres, therefore, the Fund must ensure that it is strong enough to serve its purpose in the new environment of globalized markets.

We feel it is essential that the Fund have the means to provide countries with financial assistance and contribute effectively to the orderly resolution of crises when they do arise, and one way to ensure this would be to expedite the conclusion of the next general review of Fund quotas, which is the essential basis of the IMF's financial assistance to member countries. I am gratified that the Interim Committee has asked that the exercise pertaining to the Eleventh General Review of Quotas be moved forward expeditiously. We 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 note the Interim Committee's endorsement of the Executive Board's decisions on the emergency financing facility and currency stabilization funds. However, it is a matter of great regret that a consensus on the SDR issue remains as elusive and controversial as before. We fervently hope that a solution can be found at an early date and look forward to the results of the wide-ranging review of the role and function of the SDR. The suggestion by the Managing Director of the IMF—of utilizing SDRs as a last resort financial safety net, by issuing them on a temporary basis or by lending them to countries in support of strong policy programs in the context of liquidity crisis—is one that we find worth careful consideration.

The recent compression of aid budgets in many donor countries and the prospect of further declines in real aid flows is deeply troubling. While countries such as my own have been extremely successful in attracting private capital, including foreign direct investment inflows, our dependence on concessional aid flows is expected to remain at a significant level. Indeed, for the poorest countries, there is no credible alternative to the availability of IDA-type resources in sufficient volume with the World Bank. Without a sizable replenishment of IDA resources, a critical component of the development strategy would be lacking, and the IMF's efforts to put in place the macroeconomic conditions for growth, through its enhanced structural adjustment facility (ESAF), would be in vain. We believe that an adequate IDA replenishment is a major priority because a failure to provide sufficient funding for IDA would be a severe setback to our common objective of enhanced growth and poverty alleviation.

On ESAF, we are pleased to note the consensus that exists on the continuation of ESAF, including the establishment of a self-sustaining facility in view of the vital role that this facility has played in assisting the developing countries implement adjustment policies. The ESAF must remain at the heart of any Fund strategy when dealing with the financing needs of the poor countries. We support the sale of a modest amount of the Fund's gold to permit a continuation of ESAF-type operations.

Permit me to make a comment on issues raised in the paper for the Development Committee entitled, "The Role of Public Expenditures in Poverty Reduction." We are conscious of, and have responded to, the urgent need for increasing resources devoted to the social sectors and for enhancing the efficiency of public expenditures. In this regard, we have welcomed the advice of the Bank and the Fund on the quality of fiscal adjustment and the implications this has for the composition of public expenditures. I am, however, troubled over the trend toward the growing proliferation of policy conditions emanating from multilateral financial institutions and donors to include democratic pluralism, demilitarization, and good governance. We do not dispute the desirability or the need for countries to address these issues. But these are extremely difficult and sensitive areas of public policy. I would therefore like to echo the views of the Ministers of the Group of Twenty-Four when they say that the Bretton Woods institutions should not be drawn into making value judgments on delicate and complex issues that do not fall within their mandates. Nor should such matters become the basis for additional conditionality. One must remain mindful of the fact that the joint demands of complex policy conditionality by the Fund and the Bank can often overwhelm governments, lead to a loss of ownership, and, consequently, result in a premature abandonment of adjustment programs.

Let me conclude with a few words on the economic situation and prospects in Pakistan. We have continued to implement our agenda of adjustment and reform centered on the pursuit of sound macroeconomic policies and structural reforms aimed at promoting an efficient use of resources, an open trade and exchange system, and active and effective social policies. We are also hopeful that, in the year 1995–96, we will see a strong rebound in agricultural production after three successive years of below-average growth—an outcome that will be helpful not only in moving the economy back toward its potential growth rate but also in easing inflationary pressures. We are, however, concerned to see indications in recent months of a buildup of resource pressures and an associated weakening of the external position. We are accordingly determined to take whatever corrective measures are required to address, in a prompt and comprehensive fashion, these emerging imbalances so as to maintain discipline in a stable medium-term framework and to foster market confidence in the overall soundness of our economic policies.

Statement by the Governor of the Bank for Ukraine

Ihor Mitiukov

Let me first welcome our newest member, Brunei Darussalam, with an emotion felt especially, as we too became members only three years ago.

Ukraine finds itself at a decisive stage in the development of its economic reforms and the transformation of its society. We have concluded that we must reinforce the first signs of stability within our economy, which have given us: control over the growth of inflation; positive real interest rates; relative stability of the exchange rate; and a low level of our budget deficit.

After reviewing our policies and scenarios for economic development during 1995, which have been put together with the assistance of the IMF, the Government has been able to keep to the program, which is supported by an IMF stand-by arrangement, as well as financial assistance from other donor countries, their organizations, and international financial institutions.

Liberalization of economic relations has created a market orientation in Ukraine, and we have already realized some revival in economic activity, an increase in exports, and stabilization in the standard of living with an increase in the savings rate which can be directed towards increasing investment. At the same time, however, certain delays in the realization of institutional changes, foremost with privatization, have made our situation difficult.

That is why as I speak to you today, the Parliament of Ukraine is discussing the new government's program for making cardinal changes in speeding up the progress on private ownership and its effective implementation. With this, we understand that it is vital that tight fiscal and monetary policies, along with the increased competitiveness of our domestic producers through increased efficiency, is the only way in which Ukraine will get out of its current crisis, experience growth in output, and raise the welfare of society.

We are convinced that we will be able to fulfill the goals which we have set for ourselves in our program for 1995. By lowering the budget deficit to 3.3 percent of GDP this year, we plan to see inflation fall in 1996 even further, with an average monthly inflation rate limited to 2.6 percent, while in 1995 it will be about 7.5 percent. Our macroeconomic stabilization plus long-standing liberal foreign investment laws lay a foundation for a good investment climate.

Finally, a few words about the critical issues facing the Bretton Woods institutions. I welcome the news of an encouraging global economic situation. For us and other transition countries this gives good prospects for expanding exports, provided of course that the industrial country markets become more open to our products. We welcome in this connection the idea of establishing for some countries a currency stabilization fund. We feel that Ukraine could benefit greatly, and the reform process in Ukraine would be supported by a currency stabilization fund of $1.5 billion in the near future. We also emphasize that the pillar of a useful currency stabilization fund remains a solid fiscal and monetary policy.

While the currency stabilization fund and other newly instituted mechanisms, such as post-conflict financing and emergency financing, improve the utilization of existing Fund resources, it will also be necessary to move forward with an expansion of resources. We strongly support the quota increase and consider the doubling of this as an appropriate benchmark. As others, we look forward to the March 1996 seminar on the SDR, and hope for an early resolution of the remaining questions concerning an extended and self-sustained enhanced structural adjustment facility (ESAF).

We will continue and widen our cooperation with international financial institutions. The successful realization in 1995 of the rehabilitation loan from the World Bank, the completion of the first two investment projects, and cooperation with over 15 investment projects requires a strong foundation for our cooperation.

We expect to realize and agree to, in the very near future, a general strategy for cooperation with the World Bank in the coming years. In Ukraine, we are currently working on a better administrative system to increase our effectiveness with our World Bank partners. We are currently working with the World Bank on the idea of creating a national program for reforming the whole energy sector of Ukraine, which would unite the Government, the World Bank, and bilateral donor countries in raising the effectiveness and ensuring the national security of energy for our economy.

This relationship with the international community will be a cornerstone of our successful economic development, and I look forward to it, and I thank the international community for all the assistance already provided for Ukraine.

Statement by the Governor of the Bank for Estonia

Mart Opmann

On behalf of the Governors of Estonia, Latvia and Lithuania, I wish to welcome Mr. Wolfensohn as the new President of the World Bank. As his first months in the office have shown, the World Bank has now a dynamic, committed, and efficient leader. The Baltic countries look forward to further strengthening of the Bank and a true partnership between the Bank and its borrowers under his leadership.

Estonia, Latvia, and Lithuania joined the World Bank and the IMF three years ago at the midst of economic stabilization and liberalization efforts, economic contraction, severe trade disruption, and other transitional difficulties in our countries. During these three years, all the Baltic states have gone through various government reshuffles, elections, and political debates on the reform agenda, but the general course on transition to a market economy system has remained firm. Today, economic stabilization has been greatly achieved, growth in GDP has resumed, trade patterns are well diversified, and trade flows have significantly increased. In this process, guidance of the Bank and the IMF, as well as their financial support, has been valuable.

Estonia, Latvia, and Lithuania are presently entering a new stage in their development. All three countries have signed association agreements with the European Union, aiming to become full members in a few years. The world is also opening up to us in other areas. While a few years ago the only credit source for the Baltic countries was the international financial institutions, today we can access the international capital markets. Latvia has already made its first foreign bond issue. Private capital flows, especially into the Estonian economy, have also been substantial and are still on the rise. This means that the Baltics now have alternatives and can better choose financing most suited to their investment needs. All the Baltic countries have pursued a very conservative borrowing policy, so there should be no reason to believe that new financing opportunities would over time adversely affect the countries' debt-servicing capacity or creditworthiness. These new opportunities do not mean that the Baltic countries will give up cooperation with the Bank. The World Bank's technical advice in project preparation and the economic and sector work have been extremely valuable for each of the Baltic countries. Selective financial interventions by the Bank in key sectors, which pose higher development challenges, are still needed. The Baltic countries have a high demand for infrastructure projects' financing. The Bank's participation in these projects through the guarantee mechanism would be advisable. It will allow attraction of new sources of financing, to reduce costs and extend maturities.

The first three years of cooperation have been a mutual learning process, which is already bearing some fruit. The Baltic countries have been relatively comfortable partners for the Bank, and have provided useful input also for the Bank's activities in the former Soviet Union. To date, the Bank has approved six operations in Estonia, five in Latvia, and four in Lithuania. Several other projects are now in the pipeline. Our experience shows that in small countries like the Baltics, absorptive capacity is always an important consideration. We have learned that if due attention is not paid to project implementation in the early stages of project preparation, then delays and disappointments cannot be avoided. During the transition period, the economic and political environments change fast and so do the needs of the countries. Even when project implementation has been progressing well, the Baltic countries have encountered difficulties and delays when changing already approved projects. Due to the rapidly changing and improving economic environment, more rapid preparation and a higher degree of flexibility are needed.

Transition still poses serious challenges both to the Bank and the countries involved. Estonia, Latvia, and Lithuania are willing to share their experiences and continue to learn together with the Bank. I look forward to the coming *World Development Report* on transition, which should help the concerned countries to analyze their achievements and efforts, and hopefully will provide them with valuable guidance for the future.

Statement by the Governor of the Fund for Kazakstan

Viktor Vasilyevich Sobolev

It is indeed a great honor for me to take part for the first time in such a distinguished gathering.

A few comments in memory of Mr. Preston, who visited our country in 1994. This was perhaps his last business trip, and he impressed us with his sincerity, his wisdom, his ability to understand one and all, and the joy that he took in meeting with common folk. We will always remember this remarkable and innovative man, who committed his heart and talent to Kazakstan.

It is indeed the task of international agencies like the World Bank and the International Monetary Fund to improve the living standards of people and achieve social harmony. In light of this task, we are deeply impressed by the plans and programs announced by Mr. Camdessus and Mr. Wolfensohn for the future activities of these institutions. They give us clear guidance for our analysis of the present global situation and for our own development of new activities and mechanisms for achieving our country's goals.

Now let me briefly describe the present economic situation of my country. Kazakstan is one of the largest of the former Soviet republics. We are now an independent sovereign state. We have embarked on radical economic reforms beginning in 1992. It was not until November 1993, when we introduced our own national currency, that the national bank began to operate in an autonomous and independent fashion.

Aided by vigorous technical and financial support from the IMF, the World Bank, the EBRD, the Asian Development Bank, and other international lending agencies, we were able to develop by mid-1993 an overall program aimed at stabilizing Kazakstan's economic crisis and radically reforming its economy.

Under this program, we have followed very rigorous anti-inflation policies. Prices have been liberalized and we have begun eliminating monopolies and liberalizing domestic and external trade. The Government and national bank are bringing inflation under control. By dint of much more stringent fiscal policies, we have managed in a year to reduce inflation to 2 percent a month, which is half the rate during previous years.

We have stabilized on market principles the exchange value of our currency, and we have also regulated the gold market. We have strengthened the autonomy of the national bank and increased its role in monetary transactions.

We are gradually reforming the banking system. We have doubled our currency assets, and one of the main results of our economic reforms has been that we managed to curb inflation. This has curtailed the constant drop in real wages and income of our population. We have stabilized population income, and in other calculations it has been doubled.

We stimulated exports in 1994, and exports increased twofold. For the first time, we have had a positive trade balance and also a positive balance of payments.

We have effected a number of institutional reforms. We are carrying on with large-scale privatization. We have demonopolized the main industries. We have created new banking institutions and new trading institutions, and we have a constant increase in our industrial output. Upon the initiative of the Government, we have introduced a number of measures to restructure the enterprise sector. We have strengthened the managerial functions of these enterprises, and we have done away with deficit-making companies.

We are now embarking on a new stage in our economic development. This is characterized by macroeconomic stabilization, and we have moved on to an investment period now. In our republic, we have created favorable economic and legal conditions to attract foreign investment. Under those circumstances, we will certainly complete successfully the stand-by annual program, and we will move on to a new stage in our work with the IMF and the Bank regarding the development of a medium-term plan between now and 1998.

We intend to further bolster our macroeconomic stabilization, and strengthen our economic reforms, as well as improve their quality. We intend, of course, to improve the lot of our population, especially the low-income groups.

We thank the Bank and the Fund for their support, and we intend to further cooperate with the international financial institutions. Rest assured, Mr. Camdessus, that the agreement on loans that we have achieved today regarding reforming the financial structure and a number of social measures will be duly implemented. Additional projects intended for the development of small and medium-sized businesses and for privatization are but the logical continuation of an overall package of economic reforms in my country. And we intend to be further integrated into the world economy.

To conclude, I would like to stress that our three-year experience in working together with the Bank and the Fund is a clear example that the assistance of the Bank can be adapted to transition economies.

Statement by the Governor of the Fund for Vietnam

Cao Sy Kiem

From the outset, allow me on behalf of the Vietnamese delegation to express our greetings and best wishes to the Chairman, the IMF Managing Director, the World Bank President, Governors, and the other delegates present here today. I would like to express our appreciation to the Joint Secretariat for the careful preparations to facilitate all the delegations to these Annual Meetings. I would also like to take this opportunity to pay my profound respects to the late World Bank President Lewis Preston, who, during his office term, made significant contributions to the activities of this institution. My heartfelt congratulations go to Mr. James Wolfensohn in his new capacity of President of the World Bank.

Reviewing the developments over the year since our Fiftieth Annual Meetings in Madrid, Spain, I would like to share the observation of the previous speakers that the world economy has rebounded strongly. The growth outlook continues to be strong in most developing countries, while industrial countries' growth is weaker than earlier forecast owing to a slow recovery in Japan. Robust growth in industrial and developing countries and higher import demand in countries in transition have led to a strong expansion in the volume of world trade, well above the average growth rate of the last two decades. Trade among developing countries has risen markedly, supported by trade liberalization and increased intraregional economic and financial ties. Private capital flows rebounded quickly after the Mexico crisis. However, the Mexican experience shows that financial stability and resource management on a national and global basis are of paramount importance. Moreover, financial reforms in many countries require their own efforts as well as the support and coordination of the international financial community. Among the industrial countries, inflation has eased further; in many countries, it has been at levels closer to price stability than seen in three decades. However, inflation has remained at high levels in many of the transition countries, although socioeconomic stabilization efforts have progressed in a number of these countries. These circumstances need continued support from the IMF, the World Bank, and the donor governments for the major socioeconomic programs of developing and transition countries. In this connection, I would like to express high appreciation of the Bank's recent initiative, joining many governments in implementing the poverty-alleviation strategy through the establishment of the Consultation Group to Assist the Poorest.

Over the last few years, official development assistance has made remarkable contributions to the economic development of developing countries. However, public concern exists over the prospect of a fall in total official development assistance and the growing sentiments against official development assistance among donor governments and their parliaments. The poorest countries are likely to be hit the hardest. I would like to call upon donor governments to adopt a more global view and take actions to increase official flows, since many developing and transition countries need both financial and advisory assistance to maintain the momentum of economic reforms. In this context, the Bank's replenishment of IDA-11 and the Fund's Eleventh General Review of Quotas are extremely necessary.

Since our normalization of relations with international financial institutions in October 1993, both the Fund and the Bank have extended considerable support to Vietnam. The Fund has assisted Vietnam to successfully implement the one-year economic adjustment program under the stand-by arrangement and the systemic transformation facility (STF) and the first year of a three-year medium-term economic program under the enhanced structural adjustment facility (ESAF). The Fund and the Vietnamese Government have planned to hold negotiations on the content of the second year of this program this coming November. In addition to a structural adjustment credit, the Bank has signed five credit agreements with Vietnam for projects in education, transport, agriculture, irrigation, and power sectors. The disbursement of these credits progressed rather slowly in the initial stages owing to Vietnam's inexperience in implementing projects of this kind, but the situation has improved remarkably over time. The Bank has planned to approve in fiscal year 1995–96 five projects for Vietnam in banking, rural finance, power, public health, population, and transport. All told, the Fund and the Bank have provided Vietnam with technical assistance in the form of grants. I would like to take this opportunity on behalf of the Vietnamese Government to express our sincere gratitude to the managements of the Fund and the Bank for their valuable assistance to Vietnam over the past few years. We undertake to utilize resources from these two institutions in the most effective manner.

Over the past year, Vietnam has obtained remarkable economic achievements by persevering in its efforts to develop a market-oriented economy. In 1994, GDP increased by 9 percent, export value by 32 percent, and agricultural production by 4 percent, and prospects for 1995 look good. However, the inflation rate was 14.4 percent in 1994, slightly above the target. The Vietnamese Government has taken strong measures to control inflation in 1995 to the range of last year.

Over the past few years, our renovations have been profound and comprehensive, thereby gaining such important successes as robust economic growth, political stability, social development, improvement of livelihood, and increased prestige in the international arena. These successes have created new momentum for our country to enter into the process of industrialization and modernization. However, much remains to be done because Vietnam is among the poorest and most backward countries in the world, and life is still hard for part of the population, especially in mountainous and remote areas.

The year 1995 marks an important milestone of diplomacy with Vietnam's admission to the Association of Southeast Asian Nations (ASEAN), which was followed by the establishment of full diplomatic relations with the United States and the conclusion of an agreement with the European Union. These three events have allowed Vietnam to further integrate itself into the region and other parts of the world. These accomplishments are new indications that Vietnam's foreign policy has been actively backed by people the world over.

Last September, Vietnam celebrated the Fiftieth Independence Day. Over the last five decades, the Vietnamese people have traveled along a path full of successes and challenges.

The prospect looks very bright for our country. The Government and people of Vietnam are actively working out a five-year economic development plan to close the twentieth century and start the twenty-first century with the watchwords "building a powerful nation with a rich population and an equal and civilized society." It is our firm belief that with our own efforts and the enormous assistance of the international community and friends in all continents we will be able to achieve the objective of doubling per capita GDP by the year 2000.

STATEMENT BY THE GOVERNOR OF THE BANK FOR EL SALVADOR

Manuel Enrique Hinds

I would like to take this opportunity to share with you some of the most significant achievements made by El Salvador and the challenges yet to be overcome.

The difficult years of internal conflict are behind us. El Salvador is now a country at peace, thanks to the efforts of all Salvadorans and the support of the United Nations system and friendly countries. We are experiencing great vitality thanks to the efforts of the citizenry and the new conditions that allow the private sector to give free reign to its creativity and productive forces. In the wake of opening up and liberalization, prestigious research institutions have ranked the Salvadoran economy as being among the most liberal. Indeed, we have no price controls, the exchange rate is set by market forces, commercial banking is in private hands, and interest rates reflect the interaction of supply and demand. There are virtually no barriers to foreign trade, and the capital account of the balance of payments is unrestricted.

As a result of this process, El Salvador's economy has grown by an average 7 percent in the last three years, and we hope to maintain that pace this year and the next. Inflation, which peaked at a record 31 percent in 1985–86, fell to less than 10 percent in 1994 and will remain at about that level in 1995 and 1996.

The public sector deficit declined from 4.6 percent of GDP in 1992 to 0.6 percent in 1994. It will remain at that level this year and will be virtually eliminated in 1996, largely owing to the increase in the tax burden, from 9.6 percent of GDP in 1992 to 12 percent in 1995. It is estimated that the rate will be some 13 percent in 1996, thanks to the unshakable commitment of the Government to improving tax administration, approving reforms to penalize tax evasion, and closing tax loopholes.

The external sector has also performed well. International reserves are equivalent to about four months of imports; exports have increased appreciably, led by in-bond processing, which today accounts for one-third of our total exports. Imports have tripled in the last five years as a result of El Salvador's greater economic outward orientation and vitality, and its major inflows of capital goods.

Our basic objective at this time is for El Salvador to become a country of opportunity, where social mobility and equity prevail. We do not envision economic growth without social development. To this end, we have significantly increased social spending, which is expected to account for 50 percent of the national budget in 1999. We are also in the process of making sweeping reforms in education and health, as we want to significantly increase investment in human capital, in order to boost the productivity of our people and become more competitive as a country. By investing in people, we hope to create equal opportunities for our advancement and to build durable social peace on the basis of human progress.

We are also preparing to cut investment and production costs that do not contribute value added to international prices. To that end, we have undertaken a number of reforms, notably:

- a tariff rollback program. The tariff on capital goods and inputs will be zero percent, while the tariff on consumer goods will be reduced from 20 percent to 15 percent in January 1996 and will continue to be gradually lowered over the following years.
- public sector reform, aimed at reducing the costs of bureaucracy for the private sector and improving efficiency in service provision to the public.
- the introduction of competition in the provision of telephone, electricity, and port services, with a view to increasing the efficiency of these services by preventing monopolies.

- privatization of telephone and electricity services and ports, to change the structure of public investment in such a way as to encourage investment in human capital.
- reform of the pension system to increase domestic saving, develop the capital market, and give workers more options in planning for their futures.

In addition, resources are being allocated to further the development of local governments and the socioeconomic advancement of their communities. These resources will fund social projects and local infrastructure, until such time as the investment in human capital bears fruit. Local development projects are aimed at creating new employment opportunities and options, especially in the rural areas; helping to break down the concentration of sources of production; decreasing migration to urban areas; and fostering balanced development nationwide, as far as possible.

It is through this mix of economic, social, and environmental protection policies, the strengthening of the democratic process, and the reform of the Salvadoran judicial system that we are creating the conditions for attracting national and foreign investment.

We believe that World Bank and International Monetary Fund policies should be geared toward helping countries to effectively become a part of the globalization process and efficiently invest in human and physical capital, so as to raise levels of competitiveness.

In concluding, we wish to invite foreign investors to visit and get to know our country and to become partners in the progress of our society. Our major national objective is to turn El Salvador into a country of opportunity, with equity and social mobility, so that we can rise to the challenges of the twenty-first century.

STATEMENT BY THE GOVERNOR OF THE BANK FOR THE LIBYAN ARAB JAMAHIRIYA

Mohamed A. Bait Elmal

I am pleased to congratulate you, Mr. Chairman, on behalf of the delegation of my country, the Libyan Arab Jamahiriya, for being selected to chair the Boards of Governors this year. I wish you success in moving these meetings toward the achievement of good results to benefit all the people of the world through the programs and policies implemented by the Bretton Woods institutions, as well as the coordinated economic, financial, and monetary policies adhered to by member countries taking into consideration the interests and needs of the various countries of the world, without any discrimination. It also pleases me to welcome the new member country, Brunei Darussalam, which has recently joined both of our institutions.

While commending the great and distinguished efforts undertaken by the late World Bank President Mr. Lewis T. Preston, I would like to welcome Mr. James D. Wolfensohn and extend my congratulations to him on being appointed as President of the World Bank. I wish him success in fulfilling the responsibility of leading this major international institution.

Despite the rates of growth achieved by the global economy last year, the notable growth in world trade, as well as the containment of inflation rates by many industrial nations, there have been certain developments and events which have had some adverse economic repercussions on developing countries. Notable in this respect is the Mexican crisis and its adverse effects on financial markets, particularly in developing countries. Also notable are the dramatic changes in the rates of exchange of major world currencies on a scale unwarranted by economic indicators or economic realities in the industrial countries.

Such developments and events—particularly the fluctuations in the exchange rates of major world currencies—would not have occurred had the relevant countries whose currencies are involved shouldered their responsibility to maintain the stability of the values of their respective currencies. Certain countries should have taken appropriate measures to rectify the situation.

Such developments are sources of major concern for developing nations, making it incumbent on industrial countries to adopt more credible policies that take into account the conditions prevailing in other countries—particularly the developing nations.

Undoubtedly, fluctuations in capital flows pose many risks, not only to developing countries but to the entire international financial system, especially in the context of the globalization and integration of financial markets. Hence, it is incumbent upon the international community to stand ready to help member countries that are faced with the problem of capital flight caused by dramatic speculations on capital markets or by external factors over which the relevant authorities have no control.

In this context, it is necessary to bolster and strengthen the IMF financial base through appropriate increases in quotas to enable the IMF to extend timely assistance to member countries facing crises. Therefore, we deem it necessary to advocate the need for expediting the Eleventh General Review of Quotas in order to ensure that developing countries have reasonable quota increases proportionate to their financing needs.

In this respect, we repeat our call—and that of the developing countries—for a new allocation of SDRs to strengthen international reserves and meet the financing needs of developing countries.

Certain industrial countries which opposed such a new allocation over the past years should recognize and appreciate the need of developing countries for such reserves and, accordingly, cease opposing the wishes of the majority of IMF member countries in this regard.

Undoubtedly, the conclusion of the Uruguay Round of trade negotiations and the establishment of the World Trade Organization (WTO) were significant achievements early this year. More significant, however, is the ability of the WTO to establish the mechanisms necessary to enable it to play an important role in emphasizing respect for the principles of international trade and increased trade coupled with increased equitable market access opportunities. This will contribute to strengthened growth opportunities for all member countries.

In this respect, we call once again on all industrial countries to eliminate—in compliance with the principles enshrined in the Uruguay Round and WTO agreements—all forms of barriers imposed on the exports of developing countries, be they tariff or nontariff barriers or discriminatory treatment against certain countries. Moreover, we call upon the international community to establish a mechanism for extending the requisite funding to food-importing developing countries, which will be affected adversely by the expected rise in prices of agricultural goods, due to implementation of the Uruguay Round agreement, during the transition period.

The Libyan Arab people are making steadfast efforts to extricate themselves from the cycle of backwardness and to build an advanced society. Our resources are being used to implement transformation and development programs through the establishment of agricultural, industrial, and service projects. Recognizing the seriousness of the outlook for future water resources, the Libyan Arab people have completed the first phase of a major man-made river, while the second phase is slated for completion next year, to carry about 6.5 million cubic meters of fresh water from the southern to the northern region. Land reclamation efforts are currently under way for approximately 200,000 hectares which are suitable for perennial irrigation.

A ceremony was held this year in celebration of the distribution of the first 1,000 farms, which will benefit from the water from this giant project that will change the face of the Libyan landscape. Furthermore, this project will create numerous job opportunities for Libyan citizens and for nationals of neighboring and other countries and will meet the needs of residents for agricultural and food products. Libya will continue its efforts to complete infrastructure projects in the fields of energy, transportation, housing, public utilities, health, and education. Investment in manufacturing industries has witnessed an annual growth of 7.5 percent. This year, the Libyan Jamahiriya entered the pharmaceutical industry with the opening of the Al-Rabita pharmaceutical plant to produce numerous medicines with international trademarks to meet domestic market needs and export surpluses.

Even as the Libyan Arab people have been endeavoring to achieve development objectives, they have been subjected to coercive measures initially imposed by the United States in January 1986. Such measures have involved an economic blockade, the freezing of Libyan funds at American banks and their foreign branches, and imposing coercive restrictions requiring that payments for transactions to which Libya is a party be made in dollars. These American measures violate not only the spirit of the IMF agreement but also its explicit provisions, according to which member nations may not impose restrictions on international payments and the normal flow of goods and services, particularly when the currency of the country initiating such measures is an international reserve currency used in settling a large proportion of international exchanges and payments.

We have drawn to the attention of the authorities concerned, within the IMF and its Executive Board, the necessity of opposing and condemning such behavior based on the spirit of the Bretton Woods Agreement, which prohibits member countries imposing restrictions on making payments for current international transactions. If certain member countries proceed on the basis of Fund Decision No. 144 of 1952 and their interpretation of security restrictions to justify this policy, the delegation of my country believes that Decision No. 144 of 1952 entails real problems of interpretation and application and that the IMF should not accept restrictions that are not motivated by economic and financial considerations; otherwise, the member countries might resort to imposing sanctions which would threaten the international payments system and jeopardize the spirit of the Bretton Woods Agreement for political and private reasons. We call upon the IMF and its Executive Board to review Decision No. 144 of 1952, and to put it in its proper perspective in terms of interpretation and application.

The Arab Libyan people—small in number but strong in their faith in liberty, democracy, political independence, and adherence to the principles of international justice and peace—continue to be exposed to all kinds of pressures that threaten their lives and stability. The most recent example is what came to be known as the Lockerbie crisis, which—through the pressure of some Western countries—led the United Nations Security Council to impose coercive measures against the Jamahiriya involving a ban on airline flights to and from Libya, and a ban on exports of essential commodities to Libya, and other financial measures. Such measures have led to many hardships, some of which are cited hereunder as examples:

Human Impact

- Inability to refer to foreign hospitals 13,500 patients requiring medical care abroad and surgical interventions such as openheart surgery, kidney transplants, retinopathy corrective surgery, brain and nerve surgery, spinal rupture corrective surgery, and treatment of serious burns and malignant tumors. As a result, most of the individuals involved died in difficult circumstances.

- The death of about 685 infants due to delays in obtaining the necessary serums, vaccines, and prophylactic medicines.
- Increased incidence of diabetes and mortality among diabetics due to inadequate serums for timely treatment of patients.
- Growing shortages in serums and vaccines for infants, which adversely affected all health programs related to immunization campaigns.

Economic Impact

Total losses resulting from the ban on airline flights amounted to about $10,009,217,240 comprising losses incurred in the sectors of health, social security, agriculture and animal resources, transportation, and industry as well as economy and trade.

Many countries, as well as international and regional organizations and groups, have expressed opposition to coercive measures imposed on the Jamahiriya; they still call for abolishing such measures and for resolving these issues through dialogue without recourse to blockades, asset freezing, and other means of international terrorism, which are fraught with catastrophes and disasters and which are an obstacle to development in our country. These measures indeed reflect new means of terrorism supported by some Western countries. Hence, the international community, particularly the Bretton Woods institutions, must endeavor to appreciate the Libyan position and adopt a fair economic stance based on reason and international law.

Statement by the Governor of the Bank for Myanmar

Win Tin

It gives me great pleasure to be privileged to address the Fiftieth Annual Meetings of the Governors of the World Bank and the International Monetary Fund. I wish to express my deep regret on the passing away of the former World Bank President, Mr. Lewis Preston. He will be long remembered for his dedicated services to the Bank.

I also wish to extend my congratulations and warm welcome to the new President, Mr. James Wolfensohn, and wish him all success in the important tasks ahead. I would like to join other Governors in welcoming Brunei Darussalam as a new member of the Bretton Woods institutions.

I wish to begin with a brief look at the world economy, which indicates encouraging trends in many aspects. Real GDP has continued to rise since 1991, with inflation on the decline; this trend is more pronounced in the developing countries. Recently, the slowing pace of economic expansion in the industrial countries and possible overheating in a number of developing countries may be observed. However, problems remain and challenges need to be addressed. We are also reminded of the haunting memory of the Mexican crisis, which rudely awoke us to the bitter lesson of how investor sentiment can upset the expected benefits from financial markets' liberalization.

Another lesson is the need for timely effective policy adjustments before being forced into action by the market. We therefore endorse a proactive role of the Bank and the Fund in surveillance and in assisting and advising developing countries in the management of capital inflows.

Over the years, we have seen the revolving role of the Fund and the Bank, to meet the demand for their services. Their financial involvements have increased manifold with comparable benefits accruing to the recipient member countries. But, we are concerned over the prospect of a fall, and the growing sentiments against, official development assistance among donors.

We followed with keen interest how the Fund and Bank have taken pains in attending to the needs of the countries in transition. We wholeheartedly endorse the Fund's idea that "it is vital that the international community continue to support the transition process in those countries that implement and persevere with appropriate stabilization and reform policies." Although we appreciate this Fund's idea, we wish to remind the international community that these countries faced different circumstances, and adapt their support with flexibility to enhance aid effectiveness. At the same time, we urge the donor governments to adopt a more global view and take actions to increase official flows.

Let me now turn to the Myanmar economy. Myanmar has overcome the stagnation and low growth in the aftermath of the 1988 disturbances and is now on a steady growth path. The four-year plan from fiscal year 1993 to fiscal year 1996 has been formulated and implemented to accelerate the rate of economic development with the aim of building a new, modern, developed nation. In the first three years, growth rates of 9.7 percent, 5.9 percent, and 6.8 percent, respectively, were realized, exceeding the projected growth rates for these years.

This economic progress is attributable to the reform measures undertaken. Decontrolling of prices, encouraging private sector development, allowing direct foreign investments, removing some of the restrictions on foreign exchange transactions, improving and enhancing tax administration, and allowing farmers to cultivate crops of their choice are the salient measures, among others.

Foreign investments surged, and at the end of August 1995, foreign investments approved amounted to $3 billion. Sector-wise, foreign investment in the oil and gas industry is the highest, followed by the hotel and tourist industry. Major foreign investors in Myanmar as of August 1995, are from the United Kingdom, France, Singapore, Thailand, Malaysia, the United States, and Japan.

Myanmar is bending its efforts for the development of its forestry sector. Like others, we wish to give priority considerations to environmental concerns and have therefore decided not to compromise our environmental status in the cause of seeking to further our forestry production. The progress we have made so far has not, however, blunted our awareness of the fact that much remains to be done. Like other countries in transition, we have our problems too. We have recognized the recommendations highlighted by the Fund and have taken steps in all these areas.

In our efforts to establish national reconsolidation, priority has been given to the development projects of the national races residing in the far-flung border areas. Roads, bridges, schools, hospitals, and dispensaries have been built. Communication facilities and information services, including television and electricity, have been provided. Basic needs of the local national races have been fulfilled and their standard of living enhanced. Over $300 million has already been spent for the border areas development project. As a result of these substantial investments intended for long-term benefits, together with other heavy expenditures for infrastructure developments, we have not yet been able to reduce the budget deficit to below the desired 4 percent of GDP.

The past half-century has witnessed the impressive contribution that the Fund and the Bank have made to the social and economic development of their member countries. As we move into the next half-century, there is bound to be a greater demand for their services, and we are confident that the twin institutions will come up with an even better performance. What these two institutions have managed to achieve so far, has rested much on the cooperation of the member countries.

In looking ahead to meet the challenges of the future, the Fund and the Bank will need to evolve according to the demands of a changing world. In this task they shall need, above all else, the continued cooperation and support of their members. I would like to join other members in pledging our cooperation and support for these two institutions in their task ahead to forge a better world for all of us.

Statement by the Governor of the Fund for Israel

Avraham B. Shochat

I am very pleased to be able to address this year's International Monetary Fund and World Bank Meetings. This Meeting gives me the chance to explain the exciting changes occurring in Israel and in the Middle East.

Since the beginning of the 1990s, Israel has been dealing with three main challenges. We have been reforming our economy to ensure growth and employment. Israel has absorbed 700,000 new immigrants, mainly from the Commonwealth of Independent States. And at the same time, we have been working to end the Arab-Israeli conflict. Much more still needs to be done. The region's economic development must be a high priority in order to secure a lasting peace in the Middle East.

Peace Process

Only two weeks ago, here in Washington, the world witnessed the largest meeting of Arab and Israeli leaders. Prime Minister Rabin and Chairman Arafat signed another historic agreement in the presence of President Clinton, King Hussein of Jordan, President Mubarak of Egypt, Prime Minister Gonzales, and important representatives of the Arab world. I believe this agreement signals a major step to ending the Arab-Israeli conflict as the agreement deals with the heart of the conflict between Israel and the Palestinians. Another important step to peace was the peace treaty with Jordan, and we have also been making every effort to make progress with both Syria and Lebanon in order to create a new peaceful Middle East.

Israel plans to play its part in developing fully normalized relations with the Palestinians and our Arab neighbors. To date, Israel has supplied the Palestinians with nearly $200 million, as well as technical assistance. We realize that Israel has much to offer to the region. Our markets can be an important import destination for our neighbors' exports, our companies a major source for regional investment, and our trade links with the United States and Western Europe can help the region's markets gain access to these central world economies.

At the same time, the region does not have the ability to solve all its own problems. Regional conflicts are the main threat to international peace. The key solution to many of these conflicts is economic cooperation and mutual interest in regional development. The inhabitants of the region must feel the economic benefits of peace. When this happens, the opponents of peace will lose their ability to destabilize the process.

I believe that this is the right forum to call on the donors to the Palestinians to stand by their commitments and to assist the region in its search for economic development. The United States, the European Union, and Japan have already played important roles in the economic discussions. I call on the international community to continue to expand its activities, especially with regard to the Palestinians and in the creation of regional economic institutions.

I also want to take this chance to thank both the World Bank and the IMF for all the help they have given the Palestinians in financial and technical assistance. Their role has been vital, and I hope they will continue to play a key part in the region's development. This does not mean that the region should not establish its own economic organizations; however, any new institutions should not seek to copy the work of the World Bank or the IMF. Instead, they should add to these efforts.

The Israeli Economy

The Israeli economy has continued to grow at an impressive rate. This growth has allowed us to take risks for peace, and at the same time the peace process has created the conditions to assist future economic growth. We are liberalizing and deregulating our economy and have seen our population jump by nearly 20 percent in the last five years due to the absorption of 700,000 new immigrants.

The Israeli economy has been one of the fastest growing economies in the world over the last five years. In 1994, our GDP grew by 6.5 percent, and this year, we expect the economy to grow by another 6 percent. By 1996, our per capita GDP will stand at $16,000. At the same time as experiencing great growth, inflation has been reduced to under 10 percent, and unemployment has fallen to below 6.5 percent from over 11.4 percent three years ago, even though the labor supply has grown by 27 percent in the last five years. Exports have grown by nearly 30 percent since 1992, and in the first half of this year, foreign direct investment in Israel passed $500 million.

Israel's economic success is due to far-reaching economic reforms and a decrease in government involvement in the economy. The Government has set about lowering the tax burden by nearly $3 billion, reducing tariffs, and opening up important economic sectors to greater competition. In addition, we will have reduced the Government's budget deficit from over 6 percent to 2.5 percent by 1996. We have started major structural reforms. These reforms include the introduction of competition in the telecommunications field, health care reform, reform of the pension system, liberalization of capital markets, and removal of nearly all currency controls.

Still, Israel faces important economic challenges. Israel has suffered in the past from very high levels of inflation; therefore, we must watch carefully and make sure it never returns to the levels of the 1980s. Today, we need to deal with our balance of payments deficit. This can be done by limiting the growth of government expenditure, encouraging export-oriented growth, and finding cheaper sources of imports. Between 1995 and 1996, over $1 billion worth of budgetary cuts will have been introduced even though we are entering an election year. Israel has been developing formal trade ties with important new markets, and we are seeking to expand and deepen our trade ties with all areas, especially North America and Asia.

Israel and Asia

In order to make Israel more competitive, Israel needs to integrate itself into the global economy. In recent years, we have sought to do this through involvement in global institutions, as well as through bilateral agreements.

Israel has much to offer new trade partners. We have a sophisticated and dynamic high-tech sector. This sector has great experience in joint ventures, especially in the fields of agriculture, telecommunications, and medical equipment. The Israeli market is the third largest in the Middle East and is the second largest importer in the region. We have unique market access agreements with the major economic blocs and a skilled labor force that is second to none. In turn, Israel is seeking to find cheaper sources of imports for its economy. We feel that Asian economies can offer us both cheaper products and high quality. To this end, we believe that government-to-government cooperation is essential to create the framework of strategic cooperation. The peace process has offered us new opportunities in this area.

Conclusion

Over the last five years, the international environment has changed greatly, and we all need to adapt to an ever-changing world. The Middle East is facing new and exciting challenges. The region is leaving behind its history of war and death. We are entering an era based on peace and economic development. The potential for stability and economic advancement is great. But we cannot ignore the remaining dangers and threats of extremists on all sides. The leaders of the region have made bold steps in the right direction. The process cannot be reversed, but we still need your help. The remaining problems and uncertainties are large, and we expect the major economic blocs to plan an ever-greater role to help stability.

Israel is willing to play its part. Our economic achievements have made the peace process possible, and so our continued economic success is important to all. Israel in turn expects to receive the support our political actions deserve.

This region, rich in history and proud traditions, stands at the dawn of a new era. Here at the junction of three continents, at the meeting place of great cultures and religions, we can create a new center for prosperity and cooperation. Before us, we have the chance to integrate the economies of the Middle East into the mainstream of the global economy. For this, we seek your support. Do not let this opportunity slip through our grasp.